

this morning comments on this proposal and notes that—well, I will just read it:

Why shouldn't working stiff have the same chance others have to exploit the magic of compound interest? Mr. MOYNIHAN shows that workers earning \$30,000 a year—

Which is not a high income at this time—

can at a modest 5 percent return amass \$450,000 in savings after 45 years.

By just shifting that 2 percent.

And this gives workers something they have not had in the past. It gives them an estate they can pass on to their children. Oh, heavens, I am about to say something which I suppose should be stricken from the RECORD, but it will make them all Republicans. Still, it is very much in line with the Senator's comments. I very much appreciate what he has said, and I congratulate him on doing so.

Mr. President, I ask unanimous consent that the article from the Wall Street Journal be printed in the RECORD, and I yield the floor.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From the Wall Street Journal, Mar. 18, 1998]

#### PUBLIC TRUST BUSTING

When Senator Pat Moynihan speaks, liberals listen. So it just might mark a watershed in the Social Security reform debate that the New York Democrat this week embraced private investment retirement accounts.

Mr. Moynihan's welfare state credentials are impeccable. He helped to expand it during the Johnson and Nixon years and he's been its most intellectually nimble defender since. He bitterly opposed President Clinton's decision to sign a welfare reform law. And only last year, writing in the New York Times, he seemed to rule out any significant change in Social Security.

Well, he's now revising and extending those remarks. On Monday at Harvard, he said Social Security can be saved only by changing it. And not merely with the usual political kamikaze run of raising taxes and slashing benefits. He's also endorsing a redesign that would allow individuals to invest two percentage points of their payroll tax as they please, presumably in stocks, bonds and other private investments.

This is a big breakthrough, ideologically and politically. The idea of a private Social Security option has until recently been the province of libertarians and other romantics. When Steve Forbes talked up the concept in 1996, he was demagogued by fellow Republicans. Even such a free-marketeer as Ronald Reagan was forced to accept a Social Security fix in 1983 that relied mostly on tax hikes.

What's changed? Only the world, as Mr. Moynihan admits. The weight of the looming Baby Boom retirement has caused a loss of public faith in Social Security's sustainability. Few Gen-Xers even expect to receive it. More and more Americans also began to see the virtue of private retirement vehicles like IRAs and 401(k)s, which grew like Topsy as the stock market boomed.

"In the meanwhile the academic world had changed," Mr. Moynihan also told the mostly liberal academics at Harvard. "The most energetic and innovative minds had turned away from government programs—the nanny state—toward individual enterprise, self-reliance, free markets." (No, he wasn't quoting

from this editorial page.) Privatizing Social Security suddenly became thinkable, in many minds even preferable.

In short, the same economic and political forces that have remade American business are now imposing change on government. Global competition and instant information have forced industry to streamline or die. Now those forces are busting up public monopolies—the public trusts, to adapt a Teddy Roosevelt phrase—that deliver poor results.

In the U.S., that means breaking a public school monopoly that traps poor kids in mediocrity or worse. And it means reforming a retirement system that gives individuals only a fraction of the return on their savings that they know they'd receive if they invested the money themselves. These are ultimately moral questions, because in the name of equity these public trusts are damaging opportunity for those who need it most.

The rich have known for years how to exploit the magic of compound interest, for example. Why shouldn't working stiff have the same chance? Mr. Moynihan shows that a worker earning \$30,000 a year can, at a modest 4% annual return, amass \$450,000 in savings over 45 years by shifting just 2% of the payroll tax into a private account. Thus do even liberals become capitalists.

Now, let us acknowledge that "privatizing" Social Security is not what Mr. Moynihan desires. His political goal is to reform Social Security just enough to be able to save its universal guarantee. He fears, sensibly enough, that if liberals oppose any change they may find the debate has moved on without them. "The veto groups that prevented any change in the welfare system," he says, "looked up one day to find the system had vanished."

No doubt many conservatives will want to go much further than the New Yorker, us among them. If investing 2% of the payroll tax rate is desirable, why not more? Workers ought to be able to decide for themselves if they want to trade lower taxes now for a lower Social Security payment at retirement.

We also disagree with Mr. Moynihan on some of his details. To defray the cost of reducing the payroll tax, he would increase the amount of wages subject to that tax—from \$68,400 now to \$97,500 by 2003. This is a large increase in the marginal tax rate for many taxpayers that would defeat reform's very purpose. He'd also raise the payroll tax rate down the line as the Boomers retire—something that needn't happen if the reform were more ambitious than the Senator says he wants.

Yet for all of that, Mr. Moynihan moves the debate in the direction of more individual control and more market sense. Along with his pal and co-sponsor, Nebraska's Bob Kerrey, he has broken with liberal orthodoxy. Maybe their daring will even give courage to Republicans.

Mr. ALLARD. Mr. President, I would like to respond briefly to the senior Senator from New York. I compliment him on his leadership on this particular issue. Obviously, those of us who are just new to the Senate appreciate the background and wealth of information that he brings to this issue and actually look forward to working very closely with him on these issues. A lot of what he says I agree with, and I think it is an issue that needs to be addressed today. With people like the Senator from New York working on this problem, I feel even more confident we will be able to address the problem in the near future.

The PRESIDING OFFICER. Under the previous order, the Senator from New York, Mr. MOYNIHAN, and the Senator from Nebraska, Mr. KERREY, will have 30 minutes to speak.

Mr. MOYNIHAN. Mr. President, I suggest the absence of a quorum awaiting the arrival of Senator KERREY.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. MOYNIHAN. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered. The Senator from New York is recognized.

#### SOCIAL SECURITY SOLVENCY ACT OF 1998

Mr. MOYNIHAN. Mr. President, I rise for the purpose of introducing the Social Security Solvency Act of 1998. I do so in the distinguished company of my friend from Nebraska, Senator KERREY. This is a matter which we have just heard two distinguished Senators from the other side of the aisle say requires that we attend to, and soon. The President has asked us to devote this year to a national conversation on this subject. The Pew Charitable Trusts are beginning a series of forums across the country on the matter, and the prospect that we can reach some kind of a consensus is good, if we have just enough courage to do the few necessary things.

I perhaps would start out by saying that we can save Social Security, and I don't use those words lightly, because Social Security is in jeopardy. In about 14 years' time Social Security outlays will exceed revenues. In a generation's time, there will be a huge gap between what is owed and what is received, and the mood will be to scrap the whole system as a relic of the 1930s, as, indeed, an inheritance from Bismarckian Germany. It predates the global economy of the present and the wide participation of our population in personal savings accounts and mutual funds and such matters.

My distinguished friend from Nebraska and I have been thinking about this for a good long while. He has introduced important measures, and we now bring to the Senate floor and to the consideration of the Congress a matured proposal. May I say that we have worked very closely with the actuaries at the Social Security Administration, now an independent agency once again. We have worked with the Congressional Budget Office and the Joint Committee on Taxation. The numbers we present in this measure are, as near as they can be, accurate and agreed to by objective authorities who have no politics of any kind.

I shall describe the essence of the bill very briefly as I see both the distinguished Senator from Nebraska and another distinguished colleague on the Finance Committee, the Senator from

Louisiana, on the floor. Our proposal is as simple as can be. We say go back to pay-as-you-go. That is the principle on which we began Social Security in 1935. We changed it in 1977 to a partially funded system. The payroll tax rose and rose again; 80 percent of American taxpayers now pay more in payroll taxes than they pay in income taxes. And the surplus has been used for other things altogether, it being the necessary fact that you cannot save it in any of the senses that an individual can save.

We propose to reduce the payroll tax from 12.4 percent to 10.4 percent. As you can see on this chart, our present arrangement would lead us, by the year 2070, to 18 percent of payroll—and it might even be higher. Under this legislation we stay at 10.4 until the year 2030, and then only very slightly go up in mid-21st century to 13 percent and a little more.

Our second proposal is to allow employees—workers—to opt that the 2 percent reduction in their present rate of taxation be put into a personal savings account. The Social Security Administration would present an array of different options, just as the Federal Thrift Savings Plan does now, from very conservative to more speculative, or a combination thereof. There are plenty of such options available. And at rather modest returns, given what John Maynard Keynes called “the magic of compound interest,” you would see a worker who put in 45 years, let us say—as I remarked in the paper I gave at the John F. Kennedy School on Monday which describes this—a worker who spent 45 years with the Bethlehem Steel Company could easily find himself with an estate of half a million dollars. The worker could pass on that wealth to his or her heirs.

Retirement has been for some time taking up about one-quarter of the adult life. We would gradually raise the retirement age to continue at that ratio. A person retiring would have that basic annuity of Social Security, frequently—not always, but increasingly—a pension earned in his or her working life from the firm involved, and the returns on the personal savings account. This is an extraordinary possibility. The one essential that makes it possible is that we establish a correct cost-of-living index, such that the value of the Social Security annuity is maintained but not overstated. This is something on which I believe the great majority of economists now agree. I was impressed, and I will close now, with a statement by Robert A. Pollak, the Hernreich Distinguished Professor of Economics at Washington University, in the Winter 1998 Journal of Economic Perspectives, a journal of the American Economic Association, just available, in which he says we ought to do two things. One is leave the CPI as it has been since 1918, keep its integrity. It is not a cost-of-living index; the Bureau of Labor Statistics which computes it so states. But then have the

necessary political will to correct cost of living adjustments by 1 percentage point, which was the proposal of the commission headed by Professor Michael J. Boskin, of Stanford University, former chairman of the Council of Economic Advisers. As Professor Pollak writes:

[O]n the political side—and here I step outside my role as an economist and an expert on the CPI—I recommend modifying not the CPI but the procedure used to index tax brackets and transfer payments. More specifically, I recommend that the CPI be left alone pending the report of the committee of technical experts I have proposed, but that, pending their report and action on it, tax brackets and transfer payments be escalated by the CPI minus one percentage point. I recommend one percentage point not because it is my estimate of the amount by which the CPI overstated the rate of inflation in some particular year but because of its resemblance to what game theorists call a “focal point.” A change in the indexation formula rather than in the procedure used to calculate the CPI would accomplish two desirable goals. First, it would maintain the integrity and credibility of the CPI and, thus would do nothing to further erode trust in government. Second, it would recognize that the procedure currently used to index tax brackets and benefit payments is working badly—that is it has become too expensive and is leading to excessive transfers from young workers to the elderly. As a political matter, I would like to see these transfers reduced, but the responsibility for reducing them belongs to elected politicians, not to unelected economists.

Mr. President, we are all agreed on this. We only have to do it. It is not a complicated matter, but it is a daunting one because it requires courage. There are now veto groups which will say, “Don’t change this system.” All public arrangements acquire such groups. In the end they will defeat themselves. And in a sense we have to save them from themselves. But to do so takes courage. If I may say, that is one of the reasons I am particularly proud to be associated in this matter with my gallant friend from Nebraska, who has shown remarkable courage in his lifetime in battle overseas and at home, where he has been willing to tell truths that were not always welcome but were very necessary.

Mr. President, I ask unanimous consent that the text of the address at the John F. Kennedy School of Government at Harvard be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

#### SOCIAL SECURITY SAVED!

(By Senator Daniel Patrick Moynihan)

Let me begin with a proposition appropriate to our setting. Social Security in the United States is very much the work of academicians. It came about in an exceptional 14 months in the first Roosevelt administration, but economists had been planning it for a third of a century.

A second proposition. As with much social policy that originates with academic experts, the level of informed political support for Social Security within the electorate has always been low, and just now is getting lower.

This history goes back to the progressive era at the beginning of the century. It is to be associated, for example, with John R. Commons of the University of Wisconsin who helped found the American Association for Labor Legislation in 1906. The German government had created a workman’s compensation system, a form of insurance against industrial injuries, and a sickness insurance program in 1884. In the academic manner, these ideas crossed the Atlantic, and were particularly well received by the north European populace of Minnesota. Edwin E. Witte, the author of the Social Security Act of 1935, a student of Commons, was, for example, of Moravian stock.

In a fairly short order workman’s compensation became near universal among the states, and the reformers now looked to universal health insurance, a logical follow-on. In a mode we have experienced in our time, this proved too much. Business grew nervous. The American Federation of Labor, led by Samuel Gompers, “joined his fellow members in impassioned opposition.”<sup>1</sup> Labor leaders of Gompers’ generation looked with suspicion on government-provided benefits. They wanted trade unions to do that. World War I and its aftermath pretty much ended the era. As Witte’s biographer writes:

“No great popular enthusiasm developed for health insurance, and in the troubled days immediately following World War I it went down to defeat amid contradictory cries of Made in Germany and of Bolshevism.”<sup>2</sup>

In the event, when the political system was ready it had to send for the academics. Roosevelt, pressed by Huey Long, and the Townsend Plan, and the general distress of the Depression, needed a big bill. In June of 1934 he set up the Committee on Economic Security, headed by Frances Perkins, a knowledgeable reformer, albeit of the Gramercy Park variety. And also a woman with a magical ability to get strong men, from Tammany district leaders to Supreme Court Justices, to help her out because she was, well, so in need of help.

Madame Perkins brought Commons’ student Witte from Wisconsin to staff her Committee on Economic Security, but it was left to her to figure out how to get a bill passed. She relates the sequence in “The Roosevelt I Knew”:

“It is difficult now to understand fully the doubts and confusions in which we were planning this great new enterprise in 1934. The problems of constitutional law seemed almost insuperable. I drew courage from a bit of advice I got accidentally from Supreme Court Justice Stone. I had said to him, in the course of a social occasion a few months earlier, that I had great hope of developing a social insurance system for the country, but that I was deeply uncertain of the method since, as I said laughingly, Your Court tells us what the Constitution permits. Stone had whispered, The taxing power of the Federal Government, my dear; the taxing power is sufficient for everything you want and need.”<sup>3</sup>

And so it came about that on August 14, 1935, when FDR signed the bill, standing at the President’s right in the official photograph was Robert L. Doughton of North Carolina, Chairman of the Committee on Ways and Means.

I am not altogether comfortable with what I am about to say, but I will do so anyway in the hope that you will give the subject some thought. I suggest that giving jurisdiction over Social Security to the tax writing committees of the Congress (the Finance Committee in the Senate), has caused the program to be treated as a somewhat marginal

<sup>1</sup>Footnotes at end of speech.

concern by its congressional guardians. As an example, no one much objected when the originally independent Social Security Administration was folded into first one agency then another, to the point of near disappearing.

In 1993 I became Chairman of Finance and in time was able to re-establish an independent Social Security Administration. In the Congressional Directory of that year there were 278 names between the incumbent Secretary of Health and Human Services and the Administrator of Social Security, "Vacant."<sup>4</sup>

I even managed, as I put it, to decriminalize babysitting. Early in the Clinton administration, a number of senior appointees came afoul of the Social Security law. They had not paid payroll taxes on various types of household help. The taxes were due quarterly, in quintuplet forms and the like. And few persons knew they were owed. This was especially the case with babysitters. A fine rite of passage for young girls. And yet a taxable occupation. I was able to enact legislation putting an end to any of that for persons under age 18. As I related in *Miles To Go*, it may have saved my 1994 election.<sup>5</sup> People didn't know much about Social Security, but after a succession of prospective nominees for Attorney General had to be withdrawn, they realized that Social Security might send them to jail. Not what Frances Perkins had in mind.

Over the years, the original excitement surrounding Social Security faded; and few noticed. When a time came that a majority of non-retired young adults had concluded they themselves would never get Social Security, few showed any great concern. Some elements within the Republican Party seem always to have been inclined to the thought that the whole scheme was a Rooseveltian fraud, and the public seemed to agree. (A Ponzi scheme, was the phrase, current in the 1930s.) Then in the late 1970s a combination of high inflation and overindexing did indeed move the Trust Funds perilously close to insolvency. There was no great danger. At worst, checks might have been delayed a few days. But this did not prevent President Reagan's budget director from stating in the spring of 1981 that "Unless both the House and the Senate pass a bill in the Congress which can be signed by the President within the next 15 months, the most devastating bankruptcy in history will occur on or about November 3, 1982."<sup>6</sup> A Presidential Commission was set up, chaired by the redoubtable Alan Greenspan, with Robert J. Myers as staff director, Myers—a lifelong Republican—having come from the Midwest to help out Witte in 1934! But no agreement could be reached by the time the commission expired at the end of 1982.

Then the shade of Frances Perkins intervened. On January 3, 1983, Robert J. Dole, Senate Majority Leader, published an article on the op-ed page of *The New York Times*, entitled "Reagan's Faithful Allies." It seemed that many people thought Congressional Republicans weren't giving the President the support he needed and deserved. Not so, Senator Dole said, we are with the President and there are great things still to be done. Then this:

"Social Security is a case in point. With 116 million workers supporting it and 36 million beneficiaries relying on it, Social Security overwhelms every other domestic priority. Through a combination of relatively modest steps including some acceleration of already scheduled taxes and some reduction in the rate of future benefit increases, the system can be saved. When it is, much of the credit, rightfully, will belong to this President and his party."<sup>7</sup>

That day I was being sworn in for a second term in the Senate. I had read the article

and went up to Senator Dole on the Senate Floor and asked if he really thought that, why not try one last time? And he did think it. A year of listening to Myers had altered a lifetime of Republican dogma. We met the next day. The day after that Barber Conable was brought in, a Republican who both understood and believed in Social Security. On January 15th, 13 days from our first exchange, agreement was reached at Blair House and the crisis passed. (In a November 2, 1997 interview on "Meet The Press," Senator Dole cited this as his greatest accomplishment in his Senate career. And well he might.)

Social Security was secure for the time being. Indeed, the payroll tax generated a considerable surplus which we have lived off ever since, and will continue to enjoy for yet a few years. But the loss of confidence was grievous. Had we, indeed, just barely escaped bankruptcy? What then did the future hold but more such crises? In the meanwhile the academic world had changed. Energetic and innovative minds (one thinks of Martin Feldstein here at Harvard) had turned away from government programs—"the nanny state"—toward individual enterprise, self-reliance, free markets. As the 1990s arrived, and the long stock market boom, the call for privatization of Social Security all but drowned out the more traditional views.

This was for real. In 1996, Congress enacted legislation, signed by the President, which repealed Title IV-A of the Social Security Act, Aid to Families with Dependent Children. The mothers' pension of the progressive era, incorporated in the 1935 legislation, vanished with scarcely a word of protest.

Will the Old Age pensions and survivors benefits disappear as well? What might once have seemed inconceivable is now somewhere between possible and probable. I, for one, hope that this will not happen. A minimum retirement guarantee, along with survivors benefits, is surely something we ought to keep, even as we augment retirement income in other ways. What is more, this can readily be done. Let me outline a solution.

I have a bill entitled "The Social Security Solvency Act of 1998." Senator Robert Kerrey and I will introduce it in the Senate this week. Here are the specifics:

#### I. REDUCE PAYROLL TAXES AND RETURN TO PAY-AS-YOU-GO SYSTEM WITH OPTIONAL PERSONAL ACCOUNTS

##### A. Reduce Payroll Taxes and Return to Pay-As-You-Go

As I first proposed in 1989, this bill would return Social Security to a pay-as-you-go system. That is, payroll tax rates would be adjusted so that annual revenues from taxes closely match annual outlays. This makes possible an immediate payroll tax cut amounting to about \$800 billion over the next decade, with the lower rates remaining in place for the next 30 years. We would cut the payroll tax from 12.4 to 10.4 percent between 2001 and 2024, and the rate would stay at or below 12.4 percent until 2045. Even in the out-years, as we say, the pay-as-you-go rate under this plan will increase only slightly above the current rate of 12.4 percent. It would top out at 13.4 percent in 2060. And in order to ensure continued solvency, the Board of Trustees of the Social Security Trust Funds will make recommendations for a new pay-as-you-go tax rate schedule if the Trust Funds fall out of close actuarial balance. Such a new tax rate schedule would be considered by the Congress under fast track procedures.

There is a matter of fairness here. Of families that have payroll tax liability, 80 percent pay more in payroll taxes than in income taxes.

#### B. Voluntary Personal Savings Accounts

Beginning in 2001, the bill would permit voluntary personal savings accounts, which workers could finance with the proceeds of the two percent cut in the payroll tax. Alternatively, a worker could simply take the employee share of the tax cut in the form of an increase in take-home pay equal to one percent of wages. (Economists will argue that workers who do not opt for voluntary personal savings accounts will also, eventually, receive the employer share in the form of higher wages. But that's a discussion for another time.)

The magic of compound interest will enable workers who contribute two percent of their wages to these personal savings accounts for 45 years (2000-2045) to amass a considerable estate, which they can leave to their heirs. Some examples, in nominal dollars, for workers at various earnings levels:

Real Rate of Interest

Earnings level	3 percent	4 percent	5 percent
Minimum wage (\$12,000) .....	\$110,000	\$135,000	\$175,000
Average wage (\$30,000) .....	275,000	350,000	450,000
Maximum wage (\$70,000) .....	660,000	850,000	1,100,000

#### C. Increase in Amount of Wages Subject to Tax

Under current law, the Social Security payroll tax applies only to the first \$68,400 of wages in 1998, indexed to the annual growth in average wages. At that level, we are taxing about 85 percent of wages in covered employment. That percentage has been drifting down because wages of persons above the taxable maximum have been growing faster than wages of persons below it.

Historically, about 90 percent of wages have been subject to tax. Under this bill, we propose to increase the taxable maximum to \$97,500 (thereby taxing about 87 percent of wages) by 2003. We then resume automatic changes in the base, tied to increases in wages, as under current law. (The taxable maximum is projected to increase to \$82,800 in 2003 under current law.)

#### II. INDEXATION PROVISIONS

As students of the Congress, you know by now that every tax cut requires an offset. So how do we offset the payroll tax cut in this bill? By two indexation procedures, and some other changes that most observers agree are needed.

##### A. Correct Cost of Living Adjustments by One Percentage Point

We propose to correct cost of living adjustments by one percentage point. This adjustment would apply to all indexed programs (outlays and revenues) except Supplemental Security Income.

This is an issue that has been with us for a long while now. Some 35 years ago in the Kennedy Administration I was Assistant Secretary of Labor for Policy Planning and Research, with nominal responsibility for the Bureau of Labor Statistics. The then-Commissioner of the Bureau of Labor Statistics, Ewan Clague, could not have been more friendly and supportive; he and his staff undertook to teach me, to the extent I was teachable. Although the BLS statisticians were increasingly confident of the accuracy with which they measured unemployment, business and labor were still distrustful. By contrast, the Consumer Price Index, begun in 1918 (monthly unemployment numbers only begin in 1948) was quite a different matter. It was beginning to be used as a measure of inflation in labor contracts and such like. Our BLS economists knew that the CPI overstated inflation, but no one seemed to mind. Business could make that calculation in collective bargaining contracts. And if they

failed to do, well, it was good for the workers. Indeed, on taking office in 1961, the Kennedy Administration had waiting for it a report by a distinguished National Bureau of Economic Research committee headed by George Stigler, who would go on to win the Nobel Prize in economics. The Stigler report, "The Price Statistics of the Federal Government,"<sup>8</sup> concluded that the CPI and other indexes overstated the cost of living.

That theme was picked up again by Professor Robert J. Gordon in an article in the *Public Interest* in 1981.<sup>9</sup> Gordon wrote "It is discouraging that so little has been done [by the BLS] . . . for so long." The bias identified by Stigler was still present in the CPI, which Gordon pointed out was "the single most quoted economic statistic in the world."

In 1994, in a celebrated memorandum entitled "Big Choices," then-OMB Director Alice Rivlin noted that "CPI may be overstated by 0.4% to 1.5%." It then fell to the Senate Finance Committee to pursue the issue. We held three hearings and in short order found that the BLS itself acknowledges that the CPI is not a cost of living index. In the BLS pamphlet "Understanding the Consumer Price Index: Answers to Some Questions" there is the following Q & A:

"Is the CPI a cost of living index? No, although it frequently (and mistakenly) is called a cost-of-living index."<sup>10</sup>

In 1995, the Finance Committee appointed the Advisory Commission to Study the Consumer Price Index. Chaired by Professor Michael J. Boskin of Stanford, who had been Chairman of the Council of Economic Advisers under President Bush. Also on the Commission were two eminent members of the Economics Department here at Harvard: Zvi Griliches and Dale Jorgenson. Their final report concluded that the CPI overstates changes in the cost of living by 1.1 percentage points.<sup>11</sup>

It is true that recently the Bureau of Labor Statistics has made some improvements, a routine of some 80 years now, but most of these were already anticipated when the Boskin Commission issued its final report. That bias has not been corrected. It is not in the nature of this beast. Speaking before the annual meetings of the American Economic Association and the American Finance Association in Chicago in January of this year, Alan Greenspan said:

"Despite the advances in price measurement that have been made over the years, there remains considerable room for improvement."

So our legislation includes the one percentage point correction, but it also establishes a Cost of Living Board to determine on an annual basis if some further refinement is necessary.

#### B. Increase in Retirement Age

In our 1983 agreement, the retirement age was increased, over time, to age 67 for those turning 62 in the year 2022. This legislation would make gradual increases in the retirement age by two months per year between 2000–2017, and by one month every two years between years 2018 and 2065. This increase is a form of indexation which results in retirement ages of 68 in 2017 (for workers reaching age 62 in that year), and 70 in 2065 (for workers reaching age 62 in that year.)

I refer to the increase as a form of indexation because it is related to the increase in life expectancy. Persons retiring in 1960 at age 65 had a life expectancy, at age 65, of 15 years and spent about 25 percent of their adult life in retirement. Persons retiring in 2073, at age 70, are projected to have a life expectancy at age 70 of about 17 years, and would also spend about 25 percent of their adult life in retirement. These are persons

not yet born today. And they can expect, on average, to live almost to age 90. And that may be a conservative estimate as we don't know where medical technology will take us.

#### III. PROGRAM SIMPLIFICATION—REPEAL OF EARNINGS TEST

The so-called earnings test would be eliminated for all beneficiaries age 62 and over, beginning in 2003. (Under current law, the test increases to \$30,000 in 2002.) The earnings test is a relic of the Depression years. When Social Security was enacted in 1935, the Federal government was trying to discourage elderly workers from remaining in the labor force because there were not enough jobs. Today, the unemployment rate is down to 4.6 percent, and we should do everything possible to encourage workers to remain in the labor force. The earnings test is also an administrative burden with about one million beneficiaries submitting forms to the Social Security Administration so that benefits can be withheld—reduced—if the beneficiary has wages in excess of the earnings test. All for naught because higher benefits—roughly offsetting the loss in benefits—are paid in the future for each month for which benefits are withheld.

#### IV. OTHER CHANGES

All three factions of the 1994–1996 Social Security Advisory Council supported some variation of the following three provisions.<sup>12</sup>

##### A. Normal Taxation of Benefits

We propose to tax Social Security benefits to the same extent private pensions are taxed. That is, Social Security benefits would be taxed to the extent that the worker's benefits exceed his or her contributions to the system. Consequently, about 95 percent of Social Security benefits would be taxed. (For private pensions, the percentage taxed varies according to how much of the plan is funded by employee contributions. In many private pensions, the employee makes no contribution, so 100 percent of the pension benefits are taxed.)

##### B. Coverage of Newly Hired State and Local Employees

Effective in 2001, we would extend Social Security coverage to newly hired employees in currently excluded State and local positions. In 1935, State and local employees were not included in Social Security because it was believed that the Federal government did not have the power to tax State governments. However, subsequent actions by Congress providing for mandatory Medicare coverage of State and local employees have not been challenged. Then a unanimous Supreme Court decision in 1986 put the issue to rest. In *Bowen v. Public Agencies Opposed to Social Security Entrapment*,<sup>13</sup> the Court upheld a provision in the Social Security Amendments of 1983 that prevented States from withdrawing from Social Security. Including State and local workers is not only constitutional, it is fair, since most of the five million State and local employees (about a quarter of all State and local employees) not covered by Social Security in their government jobs do receive Social Security benefits as a result of working at other jobs—part-time or otherwise—that are covered by Social Security. Relative to their contributions these workers receive generous benefits. Our bill will bring these employees into the system, preventing them from getting a windfall.

##### C. Increase in Length of Computation Period

We would increase the length of the computation period from 35 to 38 years. Consistent with the increase in life expectancy and the increase in the retirement age, we expect workers to have more years with earnings. Computation of their benefits should be based on these additional years of earnings.

#### BUDGET EFFECTS

Not only does this proposal provide for long-run solvency of Social Security, financed with payroll tax rates not much higher than current rates in the out-years, but it is also fully paid for in the short-run. The Congressional Budget Office's preliminary estimate indicates that for the 10-year period FY 1999–2008, the bill would increase the projected cumulative budget surplus by \$170 billion, from \$671 billion to \$841 billion. For the five year period FY 1999–2003, CBO projects that, under this plan, the cumulative surplus would remain unchanged. In no year is there a deficit. And, to repeat, all of this is accomplished while reducing payroll taxes by almost \$800 billion.

Will this happen? I just do not know. In a manner that the late Mancur Olsen would recognize, over time Social Security has acquired a goodly number of veto groups which prevent changes, howsoever necessary. There are exceptions as in 1983 when we did our work in 13 days and behind closed doors. But otherwise, stasis is the norm. Thus for the past three or four years almost all the major players in the Administration have recognized that we had to employ a better measure of price inflation. But repeatedly action was vetoed by the, well, veto groups.

They can go on in this manner if they choose. But if they do, in 30 years time Social Security as we have known it since 1935 will have vanished. The veto groups that prevented any change in the welfare system—Title IV-A—for so long, looked up one day to find the system had vanished. It is time then for courage as well as policy analysis.

#### NOTES

<sup>1</sup>Theron F. Schlabach, *Edwin E. Witte: Cautious Reformer* (Madison: State Historical Society of Wisconsin, 1969), 83.

<sup>2</sup>Ibid.

<sup>3</sup>Frances Perkins, *The Roosevelt I Knew* (New York: The Viking Press, 1946), 286.

<sup>4</sup>*Official Congressional Directory, 103rd Congress, 1993–1994* (Washington, DC: United States Government Printing Office, 1993), 803–825.

<sup>5</sup>Daniel Patrick Moynihan, *Miles to Go: A Personal History of Social Policy* (Cambridge, MA: Harvard University Press, 1996): 24–25.

<sup>6</sup>*Social Security Financing Recommendations*, Hearing before the U.S. House of Representatives Subcommittee on Social Security (28 May 1981) (testimony of David A. Stockman, Director, Office of Management and Budget), 40–41.

<sup>7</sup>Bob Dole, "Reagan's Faithful Allies," *The New York Times*, 3 January 1983, A 19.

<sup>8</sup>Price Statistics Review Committee of the National Bureau of Economic Research, *The Price Statistics of the Federal Government: A Report to the Office of Statistical Standards, Bureau of the Budget* (Washington, DC: National Bureau of Economic Research, 1961), 35.

<sup>9</sup>Robert J. Gordon, "The Consumer Price Index: Measuring Inflation and Causing It," *The Public Interest* 62 (Spring 1981): 134.

<sup>10</sup>U.S. Department of Labor, Bureau of Labor Statistics, *Understanding the Consumer Price Index: Answers to Some Questions* (November 1997), 3.

<sup>11</sup>Senate Committee on Finance, *Final Report of the Advisory Commission to Study the Consumer Price Index* (1996), 104th Cong., 2d sess. Committee Print, 1.

<sup>12</sup>*Report of the 1994–1996 Advisory Council on Social Security* (Washington, DC), 184.

<sup>13</sup>477 U.S. 41 (1986).

Mr. MOYNIHAN. I see my friend from Nebraska on the floor. I wonder if he would like to speak at this point, in which event I yield such time as he may require.

The PRESIDING OFFICER. The Senator from Nebraska.

Mr. KERREY. Mr. President, let me first congratulate the senior Senator from New York. The only thing better than having the senior Senator from New York introducing this piece of legislation would be to have Franklin Delano Roosevelt himself out here introducing this bill. This does not just

save Social Security, it transforms it into a much better program, as we have done through the history of Social Security. We have made it better as need requires.

I am very much appreciative of your warnings through our public life of the things that you see happening. Very often we have not heeded your warnings and then afterward have come back and said, "You were right 30 years ago," "You were right 20 years ago." For the sake of future beneficiaries, I hope it doesn't take us that long this time around to realize you are right.

Before the Senator leaves, I want to ask him a couple questions, because there are a couple things in this proposal—and I am going to speak about the wealth-generating nature of this piece of legislation. Indeed, most remarkably, there are an awful lot of Americans who do not distinguish the difference between wealth and income.

I read in your hometown newspaper, the New York Times, from time to time about people talking about the gap between the rich and the poor, and they immediately go to income, as if wealth and income are the same thing. They obviously are not. I could have \$500,000 a year in income, but if I spend it all, I have no wealth. Likewise, I can cite this marvelous story of Osceola McCarty from Hattiesburg, MS, who worked 63 or 64 years as a washerwoman, never made more than \$10,000, discovered the magic of compounding interest rates. When she decided to retire at the age of 87, she called up Southern Mississippi University and said, "I want to give you a gift." They presumed, no doubt, it was a doily or something that she made at home. It was a couple hundred thousand dollars cash. When the New York Times asked her how she generated a couple hundred thousand dollars cash on that low income, she said it was the magic of compounding interest rates.

In addition to the wealth-generating appeal of this long-term—enabling our citizens to acquire ownership and wealth and the virtue that comes from that, as well as the security that comes from owning a share of your country and having an interest in keeping inflation under control and all sorts of other things, and the capacity to be generous with your own wealth and leave some not only to your children but perhaps to some other thing that you care deeply about.

I was struck, as I read, again, your hometown newspaper this morning, that there is some division in the Republican ranks as well as the Democratic ranks of what to do with this so-called surplus, which, as you have pointed out, is nothing more than an overlevy. We do not have a surplus; we are just taxing people who get paid by the hour more than is necessary to pay the Social Security bills. In addition to the pay-go and the wealth-generating part, perhaps the most important part of this proposal is that it represents an \$800 billion tax cut over some—

Mr. MOYNIHAN. An \$800 billion tax cut over 10 years.

Mr. KERREY. Again in your hometown newspaper, it reported anyway—perhaps it is not—division on the other side of the aisle. Senator DOMENICI has a \$30 billion tax cut over 5 years. Someone on that side of the aisle wanted a \$60 billion tax cut over 5 years. I ask the Senator, what does this represent over 5 years in terms of a tax cut? Do you have that number available, or is it \$800 billion?

Mr. MOYNIHAN. Not quite. I believe about \$300 billion. About \$300 billion over 5 years; \$800 billion over 10 years.

Mr. KERREY. I think one of the points we need to make to citizens who are watching this is that in the great tax debates that go around this Capitol, very often what we are talking about when we are talking about taxes is income taxes; people are debating taxes. For the median family of four—a husband, wife, and two children—they will pay about \$2,700 in income taxes, a \$34,000 median family. They will pay \$5,400 in payroll taxes. So for them, the payroll tax is the largest tax. The income tax is a smaller tax and a smaller burden on them than the income tax is.

So perhaps one of the reasons, when we debate tax cuts, that \$60 billion over 5 years seems relatively large is that people have not paid attention, as they should, to the payroll tax. I just urge those who are wanting to give Americans a tax cut to look at this proposal seriously, because this is the biggest tax cut proposal anybody has put before this body that I have seen in recent memory.

Does the Senator agree with that? Do you see this as a tax cut as well?

Mr. MOYNIHAN. It would be one of the largest tax cuts in our history, and, in the process, it would put the Social Security System into permanent actuarial balance.

Mr. KERREY. I also point out, Mr. President, since the Senator transitioned into that, that it would put it into actuarial balance for 75 years, there have been a lot of people talking about—well, let's take again this surplus, which is nothing more than an overlevy. Let's be clear, we have taxes higher than they need to be to pay the bills. We have had a lot of folks come down and talk about the gasoline tax. The gasoline tax is higher than is needed to pay all the bills. So we are struggling with this problem here; we have a cap on expenditures.

The same thing is true with payroll taxes. They are higher than needed to pay the bills, but because we are using them for other purposes, it doesn't seem to bother us so much.

In addition to that, some have been talking about using the surplus without doing what the distinguished Senator has done, which is to say we are going to make Social Security sound. One of the reasons that this is very often confusing is that people think that the only people who are bene-

ficiaries are people who are currently eligible, which are the 37 million or so currently eligible. That is not true. Everybody effectively who is alive in America today is a beneficiary. They may not be eligible today, but that is a promise on the table for them.

You can send in a form to the Social Security Administration and say, "Hello. My name is BOB KERREY. I am 54 years of age. What will my benefits be if I take retirement at age 65?" if I decide I want to go out at 65. Or if I am 20 years old and just entering the work force, I can get the same thing. If you are 20 years old and you write to the Social Security Administration, they will say this is what is on the table, this is the promise that is currently on the table.

Unfortunately, at the current level of benefits that are promised, the promise that is on the table we are not going to be able to keep. In fact, if you are under 35 today in America and you write to the Social Security Administration, they will say, "This is the promise that is on the table, but unless changes are made, that benefit is not going to be available to you."

I should interrupt myself and say, I very often hear people say Social Security isn't going to be there for you. As long as we have a payroll tax, it is going to be there. As long as there is a payroll tax in place, it is a program that is going to be very well established.

I interrupt myself further to say, I find one of the most appealing things about your proposal, I say to the Senator from New York, is that you are saying the survivor benefit must stay intact, the disability benefit must stay intact, and we must keep a defined benefit program in place. All three of those conditions, as a part of an option to acquire wealth with a significant tax cut, it seems to me, make this proposal overwhelmingly attractive, especially for those who like fiscal responsibility. Yours is fiscally responsible. It is fully funded. There is no funny money here. There is no, "Well, I'm going to take the surplus and use it for accounts, but I really haven't figured out how exactly I am going to pay for it."

Yours is not only fully funded over the 10-year period, but it is fully funded for all beneficiaries for a 75-year period, which I find to be very, very attractive. For taxpayers who are concerned about not only today's Social Security Program but the Social Security Program 75 years from now, they have to find this proposal enormously attractive as a consequence of your condition, your valuated condition of saying you are not going to have any deficit financing here, you are not going to let Social Security go into deficit, and you want to make sure every promise we have on the table we will have in 75 years.

Mr. MOYNIHAN. Will the Senator yield for a comment?

Mr. KERREY. Yes.

Mr. MOYNIHAN. If you think of the prospect of retirement benefits, and that is real, but something that is not always recognized—I know the Senator understands it—only 62 percent of the beneficiaries of Social Security at this moment are retirees. The rest are survivors or persons who have been disabled, and that can be someone 24 years old or 35 years old. This is a system that is not just devoted to the elderly. Keeping it is essential, and we can do it. I cannot tell you how much I am honored by you associating yourself with this proposal.

Mr. KERREY. I appreciate that. I don't know how long the Senator is going to stay here, but I appreciate very much this proposal, because coming from the Senator from New York, it is, I think, much more likely to gather the attention of Americans who understand that this is a gentleman who is a strong defender of the Social Security Program; he understands its value.

One out of seven Americans who get Social Security have Social Security as their only source of income. Without Social Security and Medicare, the rate of poverty over the age of 85 would be 54 percent. It is 12 percent today. It is a program that has transformed America as we know it and has made it a much better country, a much happier country. It can be changed; it can be changed in a way that will make the program even better, even more able to meet the needs of the American people.

Mr. President, I want to talk about one real short-term aspect of this Social Security problem, and that is that there are an awful lot of people out there—and I went to the President's first event over at Georgetown where he announced the discussion he is going to have, a much-needed discussion, during the year about the Social Security Program. He was introduced by a young woman who was, I think, a third-year law school student or second-year law school student. She was quite eloquent in her introduction of the President.

She said when she first went into the work force at the age of 14 or 15, she went home to her mother and said, "Mom, who is this person FICA, and why are they taking so much money from me?" She then did a little more research, and she said she discovered that FICA tax is taken from her and kept in an account for her; it is money that is saved up for her. And she hopes that through this discussion the money she contributes is going to be there for her when she retires.

I give her full sympathy for not knowing what the program is. There are a lot of people who misunderstand Social Security and think of it as a savings program. I am constantly talking to people and I have to say, "No, it is not a savings program. There is no account for you in Washington, DC, that is accumulating; there is no ownership here." If you die before 65, or 62, which is the early eligibility—if you

die before 65 or 62, there is nothing there that transfers to heirs. There is no ownership of anything. It is a tax on wages. It is used for disability, it is used for survivors, and it is used for old age. If you are eligible under the classification of those three programs, you receive a benefit.

The way that we accumulate the revenue for those benefits is that we put a tax on wages. The benefits are very progressive. One of the things I noted in the questions and answers that the Senator from New York was engaged in up at Harvard, and one of the things we have to explain to people, is the tax is regressive, the benefits are progressive. Social Security, in the main, is a very progressive program. You can't look at Social Security and say it is regressive only by examining the tax side.

I ask if perhaps the Senator wants to comment on that. Does he hear that, as well—people talking about Social Security as a regressive program and has to offer his correction?

Mr. MOYNIHAN. I do not think there are 100 people in the country who understand the formulas by which you have a higher rate of benefit for persons with lower incomes, but it has been there from the beginning. It is a very progressive program in that regard.

That level of general unawareness, as the Senator knows, is a threatening fact, that a majority of nonretired adults think they will never get Social Security, not knowing they might need it for other purposes. If they don't think they will get it, they won't miss it if it is taken away. That is why we had better act now, and soon, and with a measure of courage that the people who created this institution showed in 1934, 1935.

Mr. KERREY. Mr. President, let me talk about the wealth-generating portion of this. We know this represents the largest tax decrease in the history of the country, somewhere between \$300 billion or \$400 billion over a 5-year period, an \$800 billion tax cut overall, payroll taxes, a tax that for most Americans is the largest tax they pay. We know it establishes the solvency of the program for 75 years. We know it answers the question that lots of younger people have, which is, Is Social Security going to be there for me? We know it is fully paid for, that it is not only actuarially sound but fiscally sound as well.

What is a new idea for people when they look at this program is, the potential to take Social Security and convert it, transform it into something in addition to survivors—I have to keep saying it because very often it gets missed—remains in place, disability remains in place, and the defined benefits program remains in place.

But what we are doing is transforming it into something which, in addition to those three things, will now generate wealth—will generate wealth—for people. What happens in the process of discussing this is we

begin to discover that this compounding interest rate formula that the Senator has referred to a couple of times as a real engine for wealth generation is a lot more powerful than we realized it was.

Indeed, it is a mathematical certainty, if you have ever given a speech about the rich getting richer and the poor getting poorer, which lots of folks on our side of the aisle do, they identify that as a problem in America. It is a mathematical certainty we can solve that problem. But you have to be willing to use compounding interest rates to do it, unless you want to give everybody a ticket, a guaranteed payoff, which is not likely.

You can use the Social Security Program as a means to get the job done. I emphasize that because in the public press where this debate is going on, very often I get asked, "Are you for privatization?" That becomes the debate, privatization versus Social Security as a defined benefit program. I say, no, I am for taking a piece of this program and personalizing it. So the bull's-eye to me is wealth generation.

The goal for me is in addition to establishing the solvency of Social Security for 75 years, in addition to a tax cut which you accomplish by making it a pay-as-you-go system, I want Americans, regardless of their income, whether they are making \$5.15 an hour or \$115 an hour, regardless of their income, I want them to know, if they are willing to go out and go to work, they are going to have a shot at the American dream of having ownership and acquiring wealth.

I want them to be connected to the future by knowing if they are going to go to work, that with absolute certainty, they are going to have wealth at the end of it. Can you connect that with private pension reform and tax reform, as the Senator from Delaware has advocated for a number of years? The answer is yes. But you can also take Social Security and make it a source of wealth.

Just at 2 percent, again, the median family income of \$34,000 will generate close to \$400,000 over a 45-year working life. In my legislation, I also allow people—in fact, I require the opening of a \$1,000 account at birth and to contribute \$500 a year to that account for the first 5 years.

The Senator from Louisiana and I and the Senator from Connecticut had a program we offered last year called KidSave which would do that. It passed the Senate and was dropped in conference. But the goal here is not just savings. The goal is wealth. The goal is to say, if you are willing to go to work, there is a Federal law that will enable you to acquire over the course of your working life wealth and the independence and the security and all the other sorts of things that come with wealth.

There are lots of benefits from that for the individual, and it ought to be obvious. When we debated the budget, I recall the other side of the aisle wanted as one of the top priorities—



The PRESIDING OFFICER. May I remind the Senator, morning business was to conclude at 11:30.

Mr. MOYNIHAN. Mr. President, I ask unanimous consent that we have an additional 10 minutes.

The distinguished chairman of the Finance Committee is agreeable to that. The Senator from Louisiana would like to conclude our remarks.

The PRESIDING OFFICER. Is there objection? Hearing none, without objection, it is so ordered.

Mr. KERREY. Mr. President, I will take 30 seconds to conclude.

When we debated the Balanced Budget Act last year, one of the big issues was the inheritance tax. Well, only 1.5 percent of Americans have estates over \$600,000—1.5 percent. That means 98.5 percent have less. For all those who are enthusiastic about raising that threshold—I voted for it and I thought the threshold ought to be raised—I call on them now, on behalf of the 98.5 percent whose estates are under \$600,000, to embrace this proposal to help them with the means to acquire wealth and what I think Social Security should provide.

Mr. BREAUX addressed the Chair.

The PRESIDING OFFICER. The Senator from Louisiana.

Mr. BREAUX. I thank the Chair.

I want to start off by commending both of the speakers who have previously spoken on this issue, especially Senator MOYNIHAN.

Social Security has always been referred to as the third rail of politics. I might add that Medicare is probably also a part of that third rail. The theory was that, if you touch it politically, you die. I mean, you can't talk about it because it has always been too controversial with all the groups and organizations around the country that, if you ever tried to change anything in the area of Social Security, people will kill you politically.

We are running out of options in 1998. Unless some changes are made, the program is not going to be there. It is not going to exist. I commend Senator MOYNIHAN for his courage and for his intelligence and for his long history of involvement in this particular area, talking about not just what the situation is today, but talking about the future, and is it going to be there for our children and our grandchildren?

People who are in retirement programs today are in good shape from the standpoint of knowing the program is going to be there for the rest of their lives. What we are really talking about, however, is, is it going to be there for their children and grandchildren and future generations?

This is not 1935. I mean, when the program was designed by President Roosevelt and Congress, in those days it was a program that really was targeted to what was happening at that time. I commend particularly the recommendations of the senior Senator from New York that we have a program that now establishes or allows people to establish individual accounts. That is very, very important.

We invest the Social Security trust funds in Government securities. You know how much money we get for their investments? About 2.3 percent. That is not a good investment. We are only getting a 2.3 percent, on average, return from the Social Security investments. That does not make sense in 1998. When the stock market is increasing at a 15 percent rate of return, we should be allowing people to participate in something that will give them more money back than 2.3 percent which we get now for Social Security investments.

The second thing that allows, as I understand it, is patterned after the thrift savings accounts which we have an opportunity to do as Federal employees. Every Federal employee, including myself as a Senator, and House Members, all Federal employees have an option of putting their retirement moneys into a high-risk plan or a moderate-risk plan or a low-risk plan with no risk at all but a lower return, in order to build up our savings. That is much better, in my opinion, than Social Security retirees have with the 2.3 percent return with regard to the Social Security retirement plan.

Here is the problem. Social Security today is pay as you go. The problem is, we have fewer people paying and more people going. We have fewer people contributing the money and more and more people going into retirement. So we have a pay-as-you-go system, but there are fewer and fewer people paying and more and more people going.

What do I mean by that? It is very simple. In 1950, there were 16.5 people paying for every one person going into retirement. Today, we have about three people paying for every one person going. In the year 2030, there are going to be only two people paying for every person going.

We have 77 million baby boomers who are getting ready to go. They are going into retirement starting in 2010. The question is, do we have enough people paying for all of those people that are going? The answer is clearly no.

So I very much congratulate the senior Senator from New York and Senator KERREY from Nebraska for having the political courage to come to the floor and talk about this.

One of my concerns is that it is voluntary. I think I would like to take it a step further and say you have to, if you are going to get a tax cut, you have to put it into an individual retirement account.

I am concerned a lot of people may take the money, the dough, and not put it into a savings account. But we still have the obligation to take care of their retirement. I think we need to talk about that. I mean, I think you are right on target and are moving in the right direction. This is a major contribution to something that we spend too little time addressing.

Mr. MOYNIHAN. I thank my colleague for his generosity.

Mr. President, if the deputy leader would allow me, I just conclude our

morning business. I ask unanimous consent that the text of the Social Security Solvency Act of 1998 be printed in the RECORD, along with a brief summary of the bill.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

S. 1792

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Social Security Solvency Act of 1998".

(b) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Modification of FICA rates to provide pay-as-you-go financing of social security.
- Sec. 3. Voluntary investment of payroll tax cut by employees.
- Sec. 4. Increase of social security wage base.
- Sec. 5. Cost-of-living adjustments.
- Sec. 6. Tax treatment of social security payments.
- Sec. 7. Coverage of newly hired State and local employees.
- Sec. 8. Increase in length of computation period from 35 to 38 years.
- Sec. 9. Phased in increase in social security retirement age.
- Sec. 10. Elimination of earnings test for individuals who have attained early retirement age.

#### SEC. 2. MODIFICATION OF FICA RATES TO PROVIDE PAY-AS-YOU-GO FINANCING OF SOCIAL SECURITY.

(a) IN GENERAL.—

(1) TAX ON EMPLOYEES.—Section 3101(a) of the Internal Revenue Code of 1986 (relating to tax on employees) is amended to read as follows:

“(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—

“(1) IN GENERAL.—In addition to other taxes, there is hereby imposed on the income of every individual a tax equal to the applicable percentage of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b)).

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be the percentage set forth in the following table:

<b>“In the case wages received during:</b>	<b>The applicable percentage shall be:</b>
1999 through 2024 .....	5.2
2025 through 2029 .....	5.7
2030 through 2044 .....	6.2
2045 through 2054 .....	6.35
2055 through 2059 .....	6.5
2060 or thereafter .....	6.7.”

(2) TAX ON EMPLOYERS.—Section 3111(a) of such Code (relating to tax on employers) is amended to read as follows:

“(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—

“(1) IN GENERAL.—In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the applicable percentage of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b)).

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be the percentage set forth in the following table:

<b>“In the case wages paid during:</b>	<b>The applicable percentage shall be:</b>
1999 and 2000 .....	6.2
2001 through 2024 .....	5.2

2025 through 2029 .....	5.7
2030 through 2044 .....	6.2
2045 through 2054 .....	6.35
2055 through 2059 .....	6.5
2060 or thereafter .....	6.7."

(3) SELF-EMPLOYMENT TAX.—Section 1401(a) of such Code (relating to tax on self-employment income) is amended to read as follows:

"(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—

"(1) IN GENERAL.—In addition to other taxes, there is hereby imposed for each taxable year, on the self-employment income of every individual, a tax equal to the applicable percentage of the amount of the self-employment income for such taxable year.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be the percentage set forth in the following table:

"In the case of a taxable year		The applicable percentage is:
Beginning after:	And before:	
December 31, 1998 ..	January 1, 2001	11.4
December 31, 2000 ..	January 1, 2025	10.4
December 31, 2024 ..	January 1, 2030	11.4
December 31, 2029 ..	January 1, 2045	12.4
December 31, 2044 ..	January 1, 2055	12.7
December 31, 2054 ..	January 1, 2060	13.0
December 31, 2059 ..		13.4."

(4) EFFECTIVE DATES.—

(A) EMPLOYEES AND EMPLOYERS.—The amendments made by paragraphs (1) and (2) apply to remuneration paid after December 31, 1998.

(B) SELF-EMPLOYED INDIVIDUALS.—The amendment made by paragraph (3) applies to taxable years beginning after December 31, 1998.

(b) REALLOCATION OF EMPLOYMENT TAXES.—

(1) REALLOCATION OF TAX ON EMPLOYEES AND EMPLOYERS.—Section 201(b)(1) of the Social Security Act (42 U.S.C. 401(b)(1)) is amended by striking "(Q) 1.70 per centum of the wages (as so defined) paid after December 31, 1996, and before January 1, 2000, and so reported, and (R) 1.80 per centum of the wages (as so defined) paid after December 31, 1999, and so reported" and inserting "(Q) 1.70 per centum of the wages (as so defined) paid after December 31, 1996, and before January 1, 1999, and so reported, (R) 1.80 per centum of the wages (as so defined) paid after December 31, 1998, and before January 1, 2015, and so reported, (S) 2.00 per centum of the wages (as so defined) paid after December 31, 2014, and before January 1, 2025, and so reported, (T) 2.30 per centum of the wages (as so defined) paid after December 31, 2024, and before January 1, 2030, and so reported, (U) 2.20 per centum of the wages (as so defined) paid after December 31, 2029, and before January 1, 2035, and so reported, (V) 2.30 per centum of the wages (as so defined) paid after December 31, 2034, and before January 1, 2040, and so reported, (W) 2.40 per centum of the wages (as so defined) paid after December 31, 2039, and before January 1, 2045, and so reported, (X) 2.80 per centum of the wages (as so defined) paid after December 31, 2044, and before January 1, 2055, and so reported, and (Y) 2.90 per centum of the wages (as so defined) paid after December 31, 2054, and so reported".

(2) REALLOCATION OF TAX ON SELF-EMPLOYMENT INCOME.—Section 201(b)(2) of such Act (42 U.S.C. 401(b)(2)) is amended by striking "(Q) 1.70 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1996, and before January 1, 2000, and (R) 1.80 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1999" and inserting "(Q) 1.70 per centum of self-employment in-

come (as so defined) so reported for any taxable year beginning after December 31, 1996, and before January 1, 1999, (R) 1.80 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1998, and before January 1, 2015, (S) 2.00 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2014, and before January 1, 2025, (T) 2.30 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2024, and before January 1, 2030, (U) 2.20 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2029, and before January 1, 2035, (V) 2.30 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2034, and before January 1, 2040, (W) 2.40 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2039, and before January 1, 2045, (X) 2.80 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2044, and before January 1, 2055, and (Y) 2.90 per centum of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2054".

(c) FUTURE RATES AND ALLOCATION BETWEEN TRUST FUNDS PROPOSED BY BOARD OF TRUSTEES FOR LEGISLATIVE ACTION.—

(1) IN GENERAL.—Section 201(c) of the Social Security Act (42 U.S.C. 401(c)) is amended in the matter following paragraph (5) by striking "(as defined by the Board of Trustees)." and inserting "(as defined by the Board of Trustees. If such finding shows that the combined Trust Funds are not in close actuarial balance (as so defined), then such report (beginning in April 2000) shall include a legislative recommendation by the Board of Trustees specifying new rates of tax under sections 3101(a), 3111(a), and 1401(a) of the Internal Revenue Code of 1986, and the allocation of those rates between the Trust Funds necessary in order to restore the combined Trust Funds and each Trust Fund to actuarial balance. If such finding shows that the combined Trust Funds are in close actuarial balance (as so defined), but that 1 of the Trust Funds is not in close actuarial balance, then such report (beginning in April 2000) shall include a legislative recommendation by the Board of Trustees specifying a new allocation of such rates of tax between the Trust Funds, so that each Trust Fund is in close actuarial balance. Such recommendation shall be considered by Congress under procedures described in subsection (n)).".

(2) FAST-TRACK CONSIDERATION OF LEGISLATIVE RECOMMENDATIONS.—Section 201 of such Act (42 U.S.C. 401) is amended by adding at the end the following new subsection:

"(n)(1) Any legislative recommendation included in the report provided for in subsection (c) shall—

"(A) not later than 3 days after the Board of Trustees submits such report, be introduced (by request) in the House of Representatives by the Majority Leader of the House and be introduced (by request) in the Senate by the Majority Leader of the Senate; and

"(B) be given expedited consideration under the same provisions and in the same way, subject to paragraph (2), as a joint resolution under section 2908 of the Defense Base Closure and Realignment Act of 1990 (10 U.S.C. 2678 note).

"(2) For purposes of applying paragraph (1) with respect to such provisions, the following rules shall apply:

"(A) Section 2908(a) of the Defense Base Closure and Realignment Act of 1990 (10 U.S.C. 2678 note) shall not apply.

"(B) Any reference to the resolution described in subsection (a) shall be deemed to be a reference to the legislative recommendation submitted under subsection (c) of this Act.

"(C) Any reference to the Committee on National Security of the House of Representatives shall be deemed to be a reference to the Committee on Ways and Means of the House of Representatives and any reference to the Committee on Armed Services of the Senate shall be deemed to be a reference to the Committee on Finance of the Senate.

"(D) Any reference to the date on which the President transmits a report shall be deemed to be a reference to the date on which the recommendation is submitted under subsection (c)."

(d) CONFORMING AMENDMENTS TO FERS TO PROTECT PAYROLL TAX CUT.—The table contained in section 8422(a)(3) of title 5, United States Code, is amended—

(1) by striking "7" the second place it appears and inserting "6";

(2) by striking "7.25" and inserting "6.25";

(3) by striking "7.4" and inserting "6.4";

(4) by striking "7.5" the first, third, fifth, and seventh places it appears and inserting

"6.5";

(5) by striking "7.75" each place it appears and inserting "6.75";

(6) by striking "7.9" each place it appears and inserting "6.9"; and

(7) by striking "8" each place it appears and inserting "7".

### SEC. 3. VOLUNTARY INVESTMENT OF PAYROLL TAX CUT BY EMPLOYEES.

(a) SHORT TITLE.—This section may be cited as the "Voluntary Investment Contribution Act (VICA)".

(b) VOLUNTARY INVESTMENT OF PAYROLL TAX CUT.—

(1) IN GENERAL.—Title II of the Social Security Act (42 U.S.C. 401 et seq.) is amended—

(A) by inserting before section 201 the following:

"PART A—INSURANCE BENEFITS";

and

(B) by adding at the end the following:

"PART B—VOLUNTARY INVESTMENT ACCOUNTS  
"EMPLOYEE ELECTION AND DESIGNATION OF  
VOLUNTARY INVESTMENT ACCOUNT UNDER  
PAYROLL DEDUCTION PLAN

"SEC. 251. (a) IN GENERAL.—An individual who is an employee of a covered employer may elect to participate in the employer's voluntary investment account payroll deduction plan either—

"(1) not later than 10 business days after the individual becomes an employee of the employer, or

"(2) during any open enrollment period. The Commissioner shall by regulation provide for at least 1 open enrollment period annually.

"(b) PERIOD OF ELECTION.—

"(1) TIME ELECTION TAKES EFFECT.—An election under subsection (a) shall take effect with respect to the first pay period beginning more than 14 days after the date of the election.

"(2) TERMINATION.—An election under subsection (a) shall terminate—

"(A) upon the termination of employment of the employee of the covered employer, or  
"(B) with respect to pay periods beginning more than 14 days after the employee terminates such election.

"(c) DESIGNATION OF VOLUNTARY INVESTMENT ACCOUNT.—

"(1) INITIAL ELECTION.—An employee shall, at the time an election is made under subsection (a), designate the voluntary investment account to which voluntary investment account contributions on behalf of the employee are to be deposited.



“(2) CHANGES.—The Commissioner shall by regulation provide the time and manner by which an employee may—

“(A) designate another voluntary investment account to which contributions are to be deposited, and

“(B) transfer amounts from one such account to another.

“(d) FORM OF ELECTIONS.—Elections under this section shall be made—

“(1) on W-4 forms (or any successor forms), or

“(2) in such other manner as the Commissioner may prescribe in order to ensure ease of administration and reductions in burdens on employers.

#### “VOLUNTARY INVESTMENT ACCOUNT PAYROLL DEDUCTION PLANS

“SEC. 252. (a) IN GENERAL.—Each person who is a covered employer for a calendar year shall have in effect a voluntary investment account payroll deduction plan for such calendar year for such person's electing employees.

“(b) VOLUNTARY INVESTMENT ACCOUNT PAYROLL DEDUCTION PLANS.—For purposes of this part, the term ‘voluntary investment account payroll deduction plan’ means a written plan of an employer—

“(1) which applies only with respect to wages of any employee who elects to become an electing employee in accordance with section 251,

“(2) under which the voluntary investment account contributions under section 3101(a) of the Internal Revenue Code of 1986 will be deducted from an electing employee's wages and, together with such contributions under section 3111(a) of such Code on behalf of such employee, will be paid to the Social Security Administration for deposit in 1 or more voluntary investment accounts designated by such employee in accordance with section 251,

“(3) under which the employer is required to pay the amount so contributed with respect to the specified voluntary investment account of the electing employee within the same time period as other taxes under sections 3101 and 3111 with respect to the wages of such employee,

“(4) under which the employer receives no compensation for the cost of administering such plan, and

“(5) under which the employer does not make any endorsement with respect to any voluntary investment account.

“(c) PENALTIES FOR FAILURE TO ESTABLISH VOLUNTARY INVESTMENT ACCOUNT PAYROLL DEDUCTION PLAN.—

“(1) IN GENERAL.—Any covered employer who fails to meet the requirements of this section for any calendar year shall be subject to a civil penalty of not to exceed the greater of—

“(A) \$2,500, or

“(B) \$100 for each electing employee of such employer as of the beginning of such calendar year.

“(2) RULES FOR APPLICATION OF SUBSECTION.—

“(A) PENALTIES ASSESSED BY COMMISSIONER.—Any civil penalty assessed by this subsection shall be imposed by the Commissioner of Social Security and collected in a civil action.

“(B) COMPROMISES.—The Commissioner may compromise the amount of any civil penalty imposed by this subsection.

“(C) AUTHORITY TO WAIVE PENALTY IN CERTAIN CASES.—The Commissioner may waive the application of this subsection with respect to any failure if the Commissioner determines that such failure is due to reasonable cause and not to intentional disregard of rules and regulations.

#### “PARTICIPATION BY SELF-EMPLOYED INDIVIDUALS

“SEC. 253. An individual shall make an election to become an electing self-employed individual, designate a voluntary investment account, and have in effect a voluntary investment account payroll deduction plan under rules similar to the rules under sections 251 and 252.

#### “DEFINITIONS AND SPECIAL RULES

“SEC. 254. For purposes of this part—

“(1) VOLUNTARY INVESTMENT ACCOUNT.—

“(A) IN GENERAL.—The term ‘voluntary investment account’ means—

“(i) any voluntary investment account in the Voluntary Investment Fund (established under section 255) which is administered by the Voluntary Investment Board, or

“(ii) any individual retirement plan (as defined in section 7701(a)(37) of the Internal Revenue Code of 1986), other than a Roth IRA (as defined in section 408A(b) of such Code), which is designated by the electing employee as a voluntary investment account (in such manner as the Secretary of the Treasury may prescribe) and which is administered or issued by a bank or other person referred to in section 408(a)(2) of such Code.

“(B) TREATMENT OF ACCOUNTS.—

“(i) IN GENERAL.—Except as provided in clause (ii)—

“(I) any voluntary investment account described in subparagraph (A)(i) shall be treated in the same manner as an account in the Thrift Savings Fund under subchapter III of chapter 84 of title 5, United States Code, and

“(II) any voluntary investment account described in subparagraph (A)(ii) shall be treated in the same manner as an individual retirement plan (as so defined).

“(ii) EXCEPTIONS.—

“(I) CONTRIBUTION LIMIT.—The aggregate amount of contributions for any taxable year to all voluntary investment accounts of an electing employee shall not exceed the aggregate amount of contributions made pursuant to sections 3101(a)(3), 3111(a)(3), and 1401(a)(3) of the Internal Revenue Code of 1986 and paid pursuant to section 252 or 253 on behalf of such employee.

“(II) NO DEDUCTION ALLOWED.—No deduction shall be allowed under section 219 of the Internal Revenue Code of 1986 for a contribution to a voluntary investment account described in subparagraph (A)(ii).

“(III) ROLLOVER CONTRIBUTIONS.—No rollover contribution may be made to a voluntary investment account unless it is from another voluntary investment account. A rollover described in the preceding sentence shall not be taken into account for purposes of subclause (I).

“(IV) DISTRIBUTIONS ALLOWED TO SOCIAL SECURITY BENEFICIARIES.—Notwithstanding any other provision of law, distributions may only be made from a voluntary investment account of an electing employee on or after the earlier of the date on which the employee begins receiving benefits under this title or the date of the employee's death.

“(2) COVERED EMPLOYER.—The term ‘covered employer’ means, for any calendar year, any person on whom an excise tax is imposed under section 3111 of the Internal Revenue Code of 1986 with respect to having an individual in the person's employ to whom wages are paid by such person during such calendar year.

“(3) ELECTING EMPLOYEE.—The term ‘electing employee’ means an individual with respect to whom an election under section 251 is in effect.

“(4) ELECTING SELF-EMPLOYED INDIVIDUAL.—The term ‘electing self-employed individual’ means an individual with respect to whom an election under section 253 is in effect.

#### “VOLUNTARY INVESTMENT FUND

“SEC. 255. (a) ESTABLISHMENT.—There is established and maintained in the Treasury of the United States a Voluntary Investment Fund in the same manner as the Thrift Savings Fund under sections 8437, 8438, and 8439 of title 5, United States Code.

“(b) VOLUNTARY INVESTMENT FUND BOARD.—

“(1) IN GENERAL.—There is established and operated in the Social Security Administration a Voluntary Investment Fund Board in the same manner as the Federal Retirement Thrift Investment Board under subchapter VII of chapter 84 of title 5, United States Code.

“(2) SPECIFIC INVESTMENT DUTIES.—The Voluntary Investment Fund shall be managed by the Voluntary Investment Fund Board in the same manner as the Thrift Savings Fund is managed under subchapter VIII of chapter 84 of title 5, United States Code.”

(2) EXEMPTION FROM ERISA REQUIREMENTS.—Section 4(b) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1003(b)) is amended—

(A) in paragraph (4), by striking “or”;

(B) in paragraph (5), by striking the period and inserting “; or”; and

(C) by inserting after paragraph (5) the following:

“(6) such plan is a voluntary investment account payroll deduction plan established under part B of title II of the Social Security Act.”

(3) EFFECTIVE DATE AND NOTICE REQUIREMENTS.—

(A) EFFECTIVE DATE.—The amendments made by this subsection (and any voluntary investment account payroll deduction plan required thereunder) apply with respect to wages paid after December 31, 2000, for pay periods beginning after such date and self-employment income for taxable years beginning after such date.

(B) NOTICE REQUIREMENTS.—

(i) IN GENERAL.—Not later than October 1, 2000, the Commissioner of Social Security shall—

(I) send to the last known address of each eligible individual a description of the program established by the amendments made by this subsection, which shall be written in the form of a pamphlet in language which may be readily understood by the average worker,

(II) provide for toll-free access by telephone from all localities in the United States and access by the Internet to the Social Security Administration through which individuals may obtain information and answers to questions regarding such program, and

(III) provide information to the media in all localities of the United States about such program and such toll-free access by telephone and access by Internet.

(ii) ELIGIBLE INDIVIDUAL.—For purposes of this subparagraph, the term “eligible individual” means an individual who, as of the date of the pamphlet sent pursuant to clause (i), is indicated within the records of the Social Security Administration as being credited with 1 or more quarters of coverage under section 213 of the Social Security Act (42 U.S.C. 413).

(iii) MATTERS TO BE INCLUDED.—The Commissioner shall include with the pamphlet sent to each eligible individual pursuant to clause (i)—

(I) a statement of the number of quarters of coverage indicated in the records of the Social Security Administration as of the date of the description as credited to such individual under section 213 of such Act and the date as of which such records may be considered accurate, and

(II) the number for toll-free access by telephone established by the Commissioner pursuant to clause (i).

(C) CONFORMING AMENDMENTS TO PAYROLL TAX PROVISIONS.—

(1) EMPLOYEES VOLUNTARY INVESTMENT CONTRIBUTIONS.—Section 3101(a) of the Internal Revenue Code of 1986 (relating to tax on employees), as amended by section 2(a)(1), is amended by adding at the end the following:

“(3) VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTION.—In the case of an electing employee (as defined in section 254(3) of the Social Security Act), in addition to other taxes, there is hereby imposed on the income of such employee a voluntary investment account contribution equal to 1 percent of the wages (as so defined) received by him with respect to employment (as so defined).”

(2) EMPLOYERS MATCHING CONTRIBUTIONS.—Section 3111(a) of such Code (relating to tax on employers), as amended by section 2(a)(2), is amended by adding at the end the following:

“(3) MATCHING CONTRIBUTION TO EMPLOYEE VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTION.—In the case of an employer having in his employ an electing employee (as defined in section 254(3) of the Social Security Act), in addition to other taxes, there is hereby imposed on such employer a voluntary investment account contribution equal to 1 percent of the wages (as so defined) paid by him with respect to employment (as so defined) of such employee.”

(3) SELF-EMPLOYMENT VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTIONS.—Section 1401(a) of such Code (relating to tax on self-employment income), as amended by section 2(a)(3), is amended by adding at the end the following:

“(3) VOLUNTARY INVESTMENT ACCOUNT CONTRIBUTION.—In the case of an electing self-employed individual (as defined in section 254(4) of the Social Security Act), in addition to other taxes, there is hereby imposed for each taxable year, on the self-employment income of such individual, a voluntary investment account contribution equal to 2 percent of the amount of the self-employment income for such taxable year.”

(4) EFFECTIVE DATES.—

(A) EMPLOYEES AND EMPLOYERS.—The amendments made by paragraphs (1) and (2) apply to remuneration paid after December 31, 2000.

(B) SELF-EMPLOYED INDIVIDUALS.—The amendment made by paragraph (3) applies to taxable years beginning after December 31, 2000.

#### SEC. 4. INCREASE OF SOCIAL SECURITY WAGE BASE.

(a) IN GENERAL.—Section 230 of the Social Security Act (42 U.S.C. 430) is amended—

(1) in subsection (b)—

(A) in paragraph (1), by striking “\$60,600” and inserting “\$97,500”; and

(B) in paragraph (2), by striking “1992” and inserting “2001”; and

(2) in subsection (c)—

(A) by striking “(1)” and all that follows through “\$29,700.” and inserting “the ‘contribution and benefit base’ with respect to remuneration paid (and taxable years beginning)—

“(1) in 2001 shall be \$85,000,

“(2) in 2002 shall be \$92,000, and

“(3) in 2003 shall be \$97,500.”; and

(B) by striking “specified in clause (2) of the preceding sentence” and inserting “specified in the preceding sentence”.

(b) EFFECTIVE DATE.—The amendments made by this section take effect on January 1, 2001.

#### SEC. 5. COST-OF-LIVING ADJUSTMENTS.

(a) COST-OF-LIVING BOARD.—Title XI of the Social Security Act (42 U.S.C. 1301 et seq.) is amended by adding at the end the following:

“PART D—COST-OF-LIVING ADJUSTMENTS

“DETERMINATION OF INFLATION ADJUSTMENT

“SEC. 1180. (a) MODIFICATION OF COST-OF-LIVING ADJUSTMENT.—

“(1) IN GENERAL.—Notwithstanding any other provision of law, any cost-of-living adjustment described in subsection (e) shall be reduced by the applicable percentage point.

“(2) APPLICABLE PERCENTAGE POINT.—In this section, the term ‘applicable percentage point’ means—

“(A) except as provided in subparagraph (B), 1 percentage point; or

“(B) the applicable percentage point adopted by the Cost-of-Living Board under subsection (b) for the calendar year.

“(b) COST-OF-LIVING BOARD DETERMINATION.—

“(1) IN GENERAL.—The Cost-of-Living Board established under section 1181 shall for each calendar year after 1998 determine if a new applicable percentage point is necessary to replace the applicable percentage point described in subsection (a)(2)(A) to ensure an accurate cost-of-living adjustment which shall apply to any cost-of-living adjustment taking effect during such year.

“(2) ADOPTION OR REJECTION OF NEW APPLICABLE PERCENTAGE POINT.—

“(A) ADOPTION.—

“(i) IN GENERAL.—If the Cost-of-Living Board adopts by majority vote a new applicable percentage point under paragraph (1), then, for purposes of subsection (a)(1), the new applicable percentage point shall remain in effect during the following calendar year.

“(ii) APPROPRIATE ADJUSTMENTS.—The Cost-of-Living Board shall make appropriate adjustments to the applicable percentage point applied to any cost-of-living adjustment if—

“(I) the period during which the change in the cost-of-living is measured for such adjustment is different than the period used by the Cost-of-Living Board; or

“(II) the adjustment is based on a component of an index rather than the entire index.

“(B) REJECTION.—If the Cost-of-Living Board fails by majority vote to adopt a new applicable percentage point under paragraph (1) for any calendar year, then the applicable percentage point for such calendar year shall be the applicable percentage point described in subsection (a)(2)(A).

“(c) REPORT.—Not later than November 1 of each calendar year, the Cost-of-Living Board shall submit a report to the President and Congress containing a detailed statement with respect to the new applicable percentage point (if any) agreed to by the Board under subsection (b).

“(d) JUDICIAL REVIEW.—Any determination by the Cost-of-Living Board under subsection (b) shall not be subject to judicial review.

“(e) COST-OF-LIVING ADJUSTMENT DESCRIBED.—A cost-of-living adjustment described in this subsection is any cost-of-living adjustment for a calendar year after 1998 determined by reference to a percentage change in a consumer price index or any component thereof (as published by the Bureau of Labor Statistics of the Department of Labor and determined without regard to this section) and used in any of the following:

“(1) The Internal Revenue Code of 1986.

“(2) Titles II, XVIII, and XIX of this Act.

“(3) Any other Federal program (not including programs under title XVI of this Act).

#### “COST-OF-LIVING BOARD

“SEC. 1181. (a) ESTABLISHMENT OF BOARD.—

“(1) ESTABLISHMENT.—There is established a board to be known as the Cost-of-Living Board (in this section referred to as the ‘Board’).

“(2) MEMBERSHIP.—

“(A) COMPOSITION.—The Board shall be composed of 5 members of whom—

“(i) 1 shall be the Chairman of the Board of Governors of the Federal Reserve System;

“(ii) 1 shall be the Chairman of the President’s Council of Economic Advisers; and

“(iii) 3 shall be appointed by the President, by and with the advice and consent of the Senate.

The President shall consult with the leadership of the House of Representatives and the Senate in the appointment of the Board members under clause (iii).

“(B) EXPERTISE.—The members of the Board appointed under subparagraph (A)(iii) shall be experts in the field of economics and should be familiar with the issues related to the calculation of changes in the cost of living. In appointing members under subparagraph (A)(iii), the President shall consider appointing—

“(i) former members of the President’s Council of Economic Advisers;

“(ii) former Treasury department officials;

“(iii) former members of the Board of Governors of the Federal Reserve System;

“(iv) other individuals with relevant prior government experience in positions requiring appointment by the President and Senate confirmation; and

“(v) academic experts in the field of price statistics.

“(C) DATE.—

“(i) NOMINATIONS.—Not later than 30 days after the date of enactment of the Social Security Solvency Act of 1998, the President shall submit the nominations of the members of the Board described in subparagraph (A)(iii) to the Senate.

“(ii) SENATE ACTION.—Not later than 60 days after the Senate receives the nominations under clause (i), the Senate shall vote on confirmation of the nominations.

“(3) TERMS AND VACANCIES.—

“(A) TERMS.—A member of the Board appointed under paragraph (2)(A)(iii) shall be appointed for a term of 5 years, except that of the members first appointed under that paragraph—

“(i) 1 member shall be appointed for a term of 1 year;

“(ii) 1 member shall be appointed for a term of 3 years; and

“(iii) 1 member shall be appointed for a term of 5 years.

“(B) VACANCIES.—

“(i) IN GENERAL.—A vacancy on the Board shall be filled in the manner in which the original appointment was made and shall be subject to any conditions which applied with respect to the original appointment.

“(ii) FILLING UNEXPIRED TERM.—An individual chosen to fill a vacancy shall be appointed for the unexpired term of the member replaced.

“(C) EXPIRATION OF TERMS.—The term of any member appointed under paragraph (2)(A)(iii) shall not expire before the date on which the member’s successor takes office.

“(4) INITIAL MEETING.—Not later than 30 days after the date on which all members of the Board have been appointed, the Board shall hold its first meeting. Subsequent meetings shall be determined by the Board by majority vote.

“(5) OPEN MEETINGS.—Notwithstanding section 552b of title 5, United States Code, or section 10 of the Federal Advisory Committee Act (5 U.S.C. App.), the Board may, by majority vote, close any meeting of the Board to the public otherwise required to be open under that section. The Board shall make the records of any such closed meeting available to the public not later than 30 days of that meeting.

“(6) QUORUM.—A majority of the members of the Board shall constitute a quorum, but

a lesser number of members may hold hearings.

“(7) CHAIRPERSON AND VICE CHAIRPERSON.—The Board shall select a Chairperson and Vice Chairperson from among the members appointed under paragraph (2)(A)(iii).

“(b) POWERS OF THE BOARD.—

“(1) HEARINGS.—The Board may hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence as the Board considers advisable to carry out the purposes of this part.

“(2) INFORMATION FROM FEDERAL AGENCIES.—The Board may secure directly from any Federal department or agency such information as the Board considers necessary to carry out the provisions of this part, including the published and unpublished data and analytical products of the Bureau of Labor Statistics. Upon request of the Chairperson of the Board, the head of such department or agency shall furnish such information to the Board.

“(3) POSTAL SERVICES.—The Board may use the United States mails in the same manner and under the same conditions as other departments and agencies of the Federal Government.

“(4) GIFTS.—The Board may accept, use, and dispose of gifts or donations of services or property.

“(c) BOARD PERSONNEL MATTERS.—

“(1) COMPENSATION OF MEMBERS.—Each member of the Board who is not otherwise an officer or employee of the Federal Government shall be compensated at a rate equal to the daily equivalent of the annual rate of basic pay prescribed for level III of the Executive Schedule under section 5315 of title 5, United States Code, for each day (including travel time) during which such member is engaged in the performance of the duties of the Board. All members of the Board who otherwise are officers or employees of the United States shall serve without compensation in addition to that received for their services as officers or employees of the United States.

“(2) TRAVEL EXPENSES.—The members of the Board shall be allowed travel expenses, including per diem in lieu of subsistence, at rates authorized for employees of agencies under subchapter I of chapter 57 of title 5, United States Code, while away from their homes or regular places of business in the performance of services for the Board.

“(3) STAFF.—

“(A) IN GENERAL.—The Chairperson of the Board may, without regard to the civil service laws and regulations, appoint and terminate an executive director and such other additional personnel as may be necessary to enable the Board to perform its duties. The employment of an executive director shall be subject to confirmation by the Board.

“(B) COMPENSATION.—The Chairperson of the Board may fix the compensation of the executive director and other personnel without regard to the provisions of chapter 51 and subchapter III of chapter 53 of title 5, United States Code, relating to classification of positions and General Schedule pay rates, except that the rate of pay for the executive director and other personnel may not exceed the rate payable for level IV of the Executive Schedule under section 5316 of such title.

“(4) DETAIL OF GOVERNMENT EMPLOYEES.—Any Federal Government employee may be detailed to the Board without additional reimbursement (other than the employee's regular compensation), and such detail shall be without interruption or loss of civil service status or privilege.

“(5) PROCUREMENT OF TEMPORARY AND INTERMITTENT SERVICES.—The Chairperson of the Board may procure temporary and intermittent services under section 3109(b) of title 5, United States Code, at rates for individ-

uals which do not exceed the daily equivalent of the annual rate of basic pay prescribed for level V of the Executive Schedule under section 5316 of such title.

“(d) TERMINATION.—Section 14 of the Federal Advisory Committee Act (5 U.S.C. App.) shall not apply to the Board.

“(e) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Board such sums as are necessary to carry out the purposes of this part.”

(c) TERMINATION OF WAGE INDEX ADJUSTMENT.—Section 215(i)(1)(C) of the Social Security Act (42 U.S.C. 415(i)(1)(C)) is amended—

(1) in clause (i)—

(A) by inserting “and before 1999” after “after 1988”; and

(B) by inserting “, or in any calendar year after 1998, the CPI increase percentage; and

(2) in clause (ii), by inserting “and before 1999” after “after 1988”.

#### SEC. 6. TAX TREATMENT OF SOCIAL SECURITY PAYMENTS.

(a) IN GENERAL.—Section 86(a) of the Internal Revenue Code of 1986 (relating to social security and tier 1 railroad retirement benefits) is amended to read as follows:

“(a) IN GENERAL.—Notwithstanding section 207 of the Social Security Act, social security benefits shall be included in the gross income of a taxpayer for any taxable year in the manner provided under section 72.”

(b) CONFORMING AMENDMENTS.—Section 86 of the Internal Revenue Code of 1986 is amended by striking subsections (b), (c), and (e) and by redesignating subsections (d) and (f) as subsections (b) and (c), respectively.

(c) TRANSFERS TO TRUST FUNDS.—Paragraph (1)(A) of section 121(e) of the Social Security Amendments of 1983, as amended by section 13215(c)(1) of the Omnibus Budget Reconciliation Act of 1993, is amended by striking “1993.” and inserting “1993, plus (iii) the amounts equivalent to the aggregate increase in tax liabilities under chapter 1 of the Internal Revenue Code of 1986 which is attributable to the amendments to section 86 of such Code made by section 6 of the Social Security Solvency Act of 1998.”

(d) EFFECTIVE DATE; APPLICATION; WAIVER OF PENALTY.—

(1) EFFECTIVE DATE.—The amendments made by this section apply to taxable years ending after June 30, 1998.

(2) APPLICATION OF AMENDMENTS TO TAXABLE YEAR 1998.—In the case of any taxable year which includes July 1, 1998, the amount a taxpayer is required to include in gross income under section 86 of the Internal Revenue Code of 1986 shall (in lieu of the amount otherwise determined) be equal to 50 percent of the sum of—

(A) the amount of social security benefits of the taxpayer to be included in gross income for such year under such section 86, determined as if the amendments made by this section had not been enacted, plus

(B) such amount determined as if such amendments had been in effect for the entire taxable year.

(3) WAIVER OF CERTAIN ESTIMATED TAX PENALTIES.—No addition to tax shall be imposed under section 6654 of the Internal Revenue Code of 1986 (relating to failure to pay estimated income tax) with respect to any underpayment of an installment required to be paid with respect to a taxable year to which paragraph (2) applies to the extent that such underpayment was created or increased by the amendments made by this section.

#### SEC. 7. COVERAGE OF NEWLY HIRED STATE AND LOCAL EMPLOYEES.

(a) AMENDMENTS TO THE SOCIAL SECURITY ACT.—

(1) IN GENERAL.—Paragraph (7) of section 210(a) of the Social Security Act (42 U.S.C. 410(a)(7)) is amended to read as follows:

“(7) Excluded State or local government employment (as defined in subsection (s))”.

(2) EXCLUDED STATE OR LOCAL GOVERNMENT EMPLOYMENT.—

(A) IN GENERAL.—Section 210 of such Act (42 U.S.C. 410) is amended by adding at the end the following new subsection:

“Excluded State or Local Government Employment

“(s)(1) IN GENERAL.—The term ‘excluded State or local government employment’ means any service performed in the employ of a State, of any political subdivision thereof, or of any instrumentality of any one or more of the foregoing which is wholly owned thereby, if—

“(A)(i) such service would be excluded from the term ‘employment’ for purposes of this title if the preceding provisions of this section as in effect on December 31, 2000, had remained in effect, and (ii) the requirements of paragraph (2) are met with respect to such service, or

“(B) the requirements of paragraph (3) are met with respect to such service.

“(2) EXCEPTION FOR CURRENT EMPLOYMENT WHICH CONTINUES.—

“(A) IN GENERAL.—The requirements of this paragraph are met with respect to service for any employer if—

“(i) such service is performed by an individual—

“(I) who was performing substantial and regular service for remuneration for that employer before January 1, 2001,

“(II) who is a bona fide employee of that employer on December 31, 2000, and

“(III) whose employment relationship with that employer was not entered into for purposes of meeting the requirements of this subparagraph, and

“(ii) the employment relationship with that employer has not been terminated after December 31, 2000.

“(B) TREATMENT OF MULTIPLE AGENCIES AND INSTRUMENTALITIES.—For purposes of subparagraph (A), under regulations (consistent with regulations established under section 3121(t)(2)(B) of the Internal Revenue Code of 1986)—

“(i) all agencies and instrumentalities of a State (as defined in section 218(b)) or of the District of Columbia shall be treated as a single employer, and

“(ii) all agencies and instrumentalities of a political subdivision of a State (as so defined) shall be treated as a single employer and shall not be treated as described in clause (i).

“(3) EXCEPTION FOR CERTAIN SERVICES.—

“(A) IN GENERAL.—The requirements of this paragraph are met with respect to service if such service is performed—

“(i) by an individual who is employed by a State or political subdivision thereof to relieve such individual from unemployment,

“(ii) in a hospital, home, or other institution by a patient or inmate thereof as an employee of a State or political subdivision thereof or of the District of Columbia,

“(iii) by an individual, as an employee of a State or political subdivision thereof or of the District of Columbia, serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency,

“(iv) by any individual as an employee included under section 5351(2) of title 5, United States Code (relating to certain interns, student nurses, and other student employees of hospitals of the District of Columbia Government), other than as a medical or dental intern or a medical or dental resident in training,

“(v) by an election official or election worker if the remuneration paid in a calendar year for such service is less than \$1,000

with respect to service performed during 2001, and the adjusted amount determined under subparagraph (C) for any subsequent year with respect to service performed during such subsequent year, except to the extent that service by such election official or election worker is included in employment under an agreement under section 218, or

“(vi) by an employee in a position compensated solely on a fee basis which is treated pursuant to section 211(c)(2)(E) as a trade or business for purposes of inclusion of such fees in net earnings from self-employment.

“(B) DEFINITIONS.—As used in this paragraph, the terms ‘State’ and ‘political subdivision’ have the meanings given those terms in section 218(b).

“(C) ADJUSTMENTS TO DOLLAR AMOUNT FOR ELECTION OFFICIALS AND ELECTION WORKERS.—For each year after 2001, the Secretary shall adjust the amount referred to in subparagraph (A)(v) at the same time and in the same manner as is provided under section 215(a)(1)(B)(ii) with respect to the amounts referred to in section 215(a)(1)(B)(i), except that—

“(i) for purposes of this subparagraph, 1998 shall be substituted for the calendar year referred to in section 215(a)(1)(B)(ii)(II), and

“(ii) such amount as so adjusted, if not a multiple of \$50, shall be rounded to the nearest multiple of \$50.

The Commissioner of Social Security shall determine and publish in the Federal Register each adjusted amount determined under this subparagraph not later than November 1 preceding the year for which the adjustment is made.”.

(B) CONFORMING AMENDMENTS.—

(i) Subsection (k) of section 210 of such Act (42 U.S.C. 410(k)) (relating to covered transportation service) is repealed.

(ii) Section 210(p) of such Act (42 U.S.C. 410(p)) is amended—

(I) in paragraph (2), by striking “service is performed” and all that follows and inserting “service is service described in subsection (s)(3)(A).”; and

(II) in paragraph (3)(A), by inserting “under subsection (a)(7) as in effect on December 31, 2000” after “section”.

(iii) Section 218(c)(6) of such Act (42 U.S.C. 418(c)(6)) is amended—

(I) by striking subparagraph (C);

(II) by redesignating subparagraphs (D) and (E) as subparagraphs (C) and (D), respectively; and

(III) by striking subparagraph (F) and inserting the following:

“(E) service which is included as employment under section 210(a).”

(b) AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1986.—

(I) IN GENERAL.—Paragraph (7) of section 3121(b) of the Internal Revenue Code of 1986 (relating to employment) is amended to read as follows:

“(7) excluded State or local government employment (as defined in subsection (t));”.

(2) EXCLUDED STATE OR LOCAL GOVERNMENT EMPLOYMENT.—Section 3121 of such Code is amended by inserting after subsection (s) the following new subsection:

“(t) EXCLUDED STATE OR LOCAL GOVERNMENT EMPLOYMENT.—

“(I) IN GENERAL.—For purposes of this chapter, the term ‘excluded State or local government employment’ means any service performed in the employ of a State, of any political subdivision thereof, or of any instrumentality of any one or more of the foregoing which is wholly owned thereby, if—

“(A)(i) such service would be excluded from the term ‘employment’ for purposes of this chapter if the provisions of subsection (b)(7) as in effect on December 31, 2000, had remained in effect, and (ii) the requirements of

paragraph (2) are met with respect to such service, or

“(B) the requirements of paragraph (3) are met with respect to such service.

“(2) EXCEPTION FOR CURRENT EMPLOYMENT WHICH CONTINUES.—

“(A) IN GENERAL.—The requirements of this paragraph are met with respect to service for any employer if—

“(i) such service is performed by an individual—

“(I) who was performing substantial and regular service for remuneration for that employer before January 1, 2001,

“(II) who is a bona fide employee of that employer on December 31, 2000, and

“(III) whose employment relationship with that employer was not entered into for purposes of meeting the requirements of this subparagraph, and

“(ii) the employment relationship with that employer has not been terminated after December 31, 2000.

“(B) TREATMENT OF MULTIPLE AGENCIES AND INSTRUMENTALITIES.—For purposes of subparagraph (A), under regulations—

“(i) all agencies and instrumentalities of a State (as defined in section 218(b) of the Social Security Act) or of the District of Columbia shall be treated as a single employer, and

“(ii) all agencies and instrumentalities of a political subdivision of a State (as so defined) shall be treated as a single employer and shall not be treated as described in clause (i).

“(3) EXCEPTION FOR CERTAIN SERVICES.—

“(A) IN GENERAL.—The requirements of this paragraph are met with respect to service if such service is performed—

“(i) by an individual who is employed by a State or political subdivision thereof to relieve such individual from unemployment,

“(ii) in a hospital, home, or other institution by a patient or inmate thereof as an employee of a State or political subdivision thereof or of the District of Columbia,

“(iii) by an individual, as an employee of a State or political subdivision thereof or of the District of Columbia, serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency,

“(iv) by any individual as an employee included under section 5351(2) of title 5, United States Code (relating to certain interns, student nurses, and other student employees of hospitals of the District of Columbia Government), other than as a medical or dental intern or a medical or dental resident in training,

“(v) by an election official or election worker if the remuneration paid in a calendar year for such service is less than \$1,000 with respect to service performed during 2001, and the adjusted amount determined under section 210(s)(3)(C) of the Social Security Act for any subsequent year with respect to service performed during such subsequent year, except to the extent that service by such election official or election worker is included in employment under an agreement under section 218 of the Social Security Act, or

“(vi) by an employee in a position compensated solely on a fee basis which is treated pursuant to section 1402(c)(2)(E) as a trade or business for purposes of inclusion of such fees in net earnings from self-employment.

“(B) DEFINITIONS.—As used in this paragraph, the terms ‘State’ and ‘political subdivision’ have the meanings given those terms in section 218(b) of the Social Security Act.”.

(3) CONFORMING AMENDMENTS.—

(A) Subsection (j) of section 3121 of such Code (relating to covered transportation service) is repealed.

(B) Paragraph (2) of section 3121(u) of such Code (relating to application of hospital insurance tax to Federal, State, and local employment) is amended—

(i) in subparagraph (B), by striking “service is performed” in clause (ii) and all that follows through the end of such subparagraph and inserting “service is service described in subsection (t)(3)(A).”; and

(ii) in subparagraph (C)(i), by inserting “under subsection (b)(7) as in effect on December 31, 2000” after “chapter”.

(c) EFFECTIVE DATE.—Except as otherwise provided in this section, the amendments made by this section shall apply with respect to service performed after December 31, 2000.

#### SEC. 8. INCREASE IN LENGTH OF COMPUTATION PERIOD FROM 35 TO 38 YEARS.

Section 215(b)(2)(B) of the Social Security Act (42 U.S.C. 415(b)(2)) is amended—

(1) in clause (ii), by striking “and” at the end;

(2) in clause (iii)—

(A) by striking “age 62” and inserting “the applicable age”; and

(B) by striking the period at the end and inserting “; and”; and

(3) by adding at the end the following:

“(iv) the term ‘applicable age’ means with respect to individuals who attain age 62—

“(I) before 2001, age 62;

“(II) in 2001, age 63;

“(III) in 2002, age 64; and

“(IV) after 2002, age 65.”.

#### SEC. 9. PHASED INCREASE IN SOCIAL SECURITY RETIREMENT AGE.

(a) IN GENERAL.—Section 216(l) of the Social Security Act (42 U.S.C. 416(l)) is amended—

(1) in paragraph (1), by striking subparagraphs (B), (C), (D), and (E) and inserting the following:

“(B) with respect to an individual who attains early retirement age after December 31, 1999, and before January 1, 2018, 65 years of age plus  $\frac{1}{2}$  of the number of months in the period beginning with January 2000 and ending with December of the year in which the individual attains early retirement age;

“(C) with respect to an individual who attains early retirement age after December 31, 2017, and before January 1, 2066, 68 years of age plus  $\frac{1}{4}$  of the number of months in the period beginning with January 2018 and ending with December of the year in which the individual attains early retirement age, rounded down to the lowest whole month; and

“(D) with respect to an individual who attains early retirement age after December 31, 2065, 70 years of age.”; and

(2) by striking paragraph (3).

(b) CONFORMING REDUCTIONS FOR RECEIVING BENEFITS BEFORE NORMAL RETIREMENT AGE.—Section 202(q)(9)(A) of the Social Security Act (42 U.S.C. 402(q)(9)(A)) is amended by striking “and five-twelfths of 1 percent for any additional months included in such periods” and inserting “five-twelfths of 1 percent for the next 24 months included in such periods, three-eighths of 1 percent for the next 24 months included in such periods, and one-third of 1 percent for any additional months included in such periods”.

(c) STUDY OF THE EFFECT OF INCREASING THE RETIREMENT AGE.—

(1) STUDY PLAN.—Not later than February 15, 2000, the Commissioner of Social Security shall submit to Congress a detailed study plan for evaluating the effects of increases in the retirement age scheduled under section 216(l) of the Social Security Act on the day before the date of enactment of the amendments made by subsection (a) and under such amendments. The study plan shall include a description of the methodology, data, and

funding that will be required in order to provide to Congress not later than February 15, 2005—

(A) an evaluation of trends in mortality and their relationship to trends in health status, among individuals approaching eligibility for social security retirement benefits;

(B) an evaluation of trends in labor force participation among individuals approaching eligibility for social security retirement benefits and among individuals receiving retirement benefits, and of the factors that influence the choice between retirement and participation in the labor force;

(C) an evaluation of changes, if any, in the social security disability program that would reduce the impact of increases in the retirement age on workers in poor health or physically demanding occupations;

(D) an evaluation of the methodology used to develop projections for trends in mortality, health status, and labor force participation among individuals approaching eligibility for social security retirement benefits and among individuals receiving retirement benefits; and

(E) an evaluation of such other matters as the Commissioner deems appropriate for evaluating the effects of increases in the retirement age.

(2) **REPORT ON RESULTS OF STUDY.**—Not later than February 15, 2005, the Commissioner of Social Security shall provide to Congress an evaluation of the implications of the trends studied under paragraph (1), along with recommendations, if any, of the extent to which the conclusions of such evaluations indicate that future scheduled increases in the retirement age should be modified. Furthermore, such report should include recommendations for modifying the social security disability program and other income support programs that should be considered in conjunction with scheduled increases in the retirement age.

#### **SEC. 10. ELIMINATION OF EARNINGS TEST FOR INDIVIDUALS WHO HAVE ATTAINED EARLY RETIREMENT AGE.**

(a) **IN GENERAL.**—Section 203 of the Social Security Act (42 U.S.C. 403) is amended—

(1) in subsection (c)(1), by striking “the age of seventy” and inserting “early retirement age (as defined in section 216(l))”;

(2) in paragraphs (1)(A) and (2) of subsection (d), by striking “the age of seventy” each place it appears and inserting “early retirement age (as defined in section 216(l))”;

(3) in subsection (f)(1)(B), by striking “was age seventy or over” and inserting “was at or above early retirement age (as defined in section 216(l))”;

(4) in subsection (f)(3)—

(A) by striking “33½ percent” and all that follows through “any other individual,” and inserting “50 percent of such individual’s earnings for such year in excess of the product of the exempt amount as determined under paragraph (8).”; and

(B) by striking “age 70” and inserting “early retirement age (as defined in section 216(l))”;

(5) in subsection (h)(1)(A), by striking “age 70” each place it appears and inserting “early retirement age (as defined in section 216(l))”; and

(6) in subsection (j)—

(A) in the heading, by striking “Age Seventy” and inserting “Early Retirement Age”; and

(B) by striking “seventy years of age” and inserting “having attained early retirement age (as defined in section 216(l))”.

(b) **CONFORMING AMENDMENTS ELIMINATING THE SPECIAL EXEMPT AMOUNT FOR INDIVIDUALS WHO HAVE ATTAINED AGE 62.**—

(1) **UNIFORM EXEMPT AMOUNT.**—Section 203(f)(8)(A) of the Social Security Act (42 U.S.C. 403(f)(8)(A)) is amended by striking

“the new exempt amounts (separately stated for individuals described in subparagraph (D) and for other individuals) which are to be applicable” and inserting “a new exempt amount which shall be applicable”.

(2) **CONFORMING AMENDMENTS.**—Section 203(f)(8)(B) of the Social Security Act (42 U.S.C. 403(f)(8)(B)) is amended—

(A) in the matter preceding clause (i), by striking “Except” and all that follows through “whichever” and inserting “The exempt amount which is applicable for each month of a particular taxable year shall be whichever”;

(B) in clauses (i) and (ii), by striking “corresponding” each place it appears; and

(C) in the last sentence, by striking “an exempt amount” and inserting “the exempt amount”.

(3) **REPEAL OF BASIS FOR COMPUTATION OF SPECIAL EXEMPT AMOUNT.**—Section 203(f)(8)(D) of the Social Security Act (42 U.S.C. (f)(8)(D)) is repealed.

(c) **ADDITIONAL CONFORMING AMENDMENTS.**—

(1) **ELIMINATION OF REDUNDANT REFERENCES TO RETIREMENT AGE.**—Section 203 of the Social Security Act (42 U.S.C. 403) is amended—

(A) in subsection (c), in the last sentence, by striking “nor shall any deduction” and all that follows and inserting “nor shall any deduction be made under this subsection from any widow’s or widower’s insurance benefit if the widow, surviving divorced wife, widower, or surviving divorced husband involved became entitled to such benefit prior to attaining age 60.”; and

(B) in subsection (f)(1), by striking clause (D) and inserting the following: “(D) for which such individual is entitled to widow’s or widower’s insurance benefits if such individual became so entitled prior to attaining age 60.”.

(2) **CONFORMING AMENDMENT TO PROVISIONS FOR DETERMINING AMOUNT OF INCREASE ON ACCOUNT OF DELAYED RETIREMENT.**—Section 202(w)(2)(B)(ii) of the Social Security Act (42 U.S.C. 402(w)(2)(B)(ii)) is amended—

(A) by striking “either”; and

(B) by striking “or suffered deductions under section 203(b) or 203(c) in amounts equal to the amount of such benefit”.

(3) **PROVISIONS RELATING TO EARNINGS TAKEN INTO ACCOUNT IN DETERMINING SUBSTANTIAL GAINFUL ACTIVITY OF BLIND INDIVIDUALS.**—The second sentence of section 223(d)(4) of such Act (42 U.S.C. 423(d)(4)) is amended by striking “if section 102 of the Senior Citizens’ Right to Work Act of 1996 had not been enacted” and inserting the following: “if the amendments to section 203 made by section 102 of the Senior Citizens’ Right to Work Act of 1996 and by the Social Security Solvency Act of 1998 had not been enacted”.

(d) **STUDY OF THE EFFECT OF TAKING EARNINGS INTO ACCOUNT IN DETERMINING SUBSTANTIAL GAINFUL ACTIVITY OF DISABLED INDIVIDUALS.**—

(1) **IN GENERAL.**—Not later than February 15, 2000, the Commissioner of Social Security shall conduct a study on the effect that taking earnings into account in determining substantial gainful activity of individuals receiving disability insurance benefits has on the incentive for such individuals to work and submit to Congress a report on the study.

(2) **CONTENTS OF STUDY.**—The study conducted under paragraph (1) shall include the evaluation of—

(A) the effect of the current limit on earnings on the incentive for individuals receiving disability insurance benefits to work;

(B) the effect of increasing the earnings limit or changing the manner in which disability insurance benefits are reduced or terminated as a result of substantial gainful ac-

tivity (including reducing the benefits gradually when the earnings limit is exceeded) on—

(i) the incentive to work; and

(ii) the financial status of the Federal Disability Insurance Trust Fund;

(C) the effect of extending eligibility for the Medicare program to individuals during the period in which disability insurance benefits of the individual are gradually reduced as a result of substantial gainful activity and extending such eligibility for a fixed period of time after the benefits are terminated on—

(i) the incentive to work; and

(ii) the financial status of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund; and

(D) the relationship between the effect of substantial gainful activity limits on blind individuals receiving disability insurance benefits and other individuals receiving disability insurance benefits.

(3) **CONSULTATION.**—The analysis under paragraph (2)(C) shall be done in consultation with the Administrator of the Health Care Financing Administration.

(d) **EFFECTIVE DATE.**—The amendments and repeals made by subsections (a), (b), and (c) shall apply with respect to taxable years ending after December 31, 2002.

#### **SOCIAL SECURITY SOLVENCY ACT OF 1998— BRIEF DESCRIPTION OF PROVISIONS**

##### **I. REDUCE PAYROLL TAXES AND RETURN TO PAY-AS-YOU-GO SYSTEM WITH OPTIONAL PERSONAL ACCOUNTS**

##### **A. Reduce payroll taxes and return to pay-as-you-go**

The bill would return Social Security to a pay-as-you-go system. That is, payroll tax rates would be adjusted so that annual revenues from taxes closely match annual outlays. This makes possible an immediate payroll tax cut of approximately \$800 billion over the next 10 years, with reduced rates remaining in place for the next 30 years. Payroll tax rates would be cut from 12.4 to 10.4 percent between 2001 and 2024, and the rate would stay at or below 12.4 percent until 2045. Even in the out-years, the pay-as-you-go rates under the plan will increase only slightly above the current rate of 12.4 percent. It would reach 13.4 percent in 2060. The proposed rate schedule is:

	Percent
2001-2024 .....	10.4
2025-2029 .....	11.4
2030-2044 .....	12.4
2045-2054 .....	12.7
2055-2059 .....	13.0
2060 and thereafter .....	13.4

In order to ensure continued solvency, the Board of Trustees of the Social Security Trust Funds would make recommendations for a new pay-as-you-go tax rate schedule if the Trust Funds fall out of close actuarial balance. The new tax rate schedule would be considered by Congress under fast track procedures.

##### **B. Voluntary personal savings accounts**

Beginning in 2001, the bill would permit voluntary personal savings accounts, which workers could finance with the proceeds of the two percent cut in the payroll tax. Alternatively, a worker could simply take the employee share of the tax cut in the form of an increase in take-home pay equal to one percent of wages.

##### **C. Increase in amount of wages subject to tax**

Under current law, the Social Security payroll tax applies only to the first \$68,400 of wages in 1998. At that level, about 85 percent of wages in covered employment are taxed.

That percentages has been falling because wages of persons above the taxable maximum have been growing faster than wages of persons below it.

Histocially, about 90 percent of wages have been subject to tax. Under the bill, the taxable maximum would be increased to \$97,500 (thereby imposing the tax on about 87 percent of wages) by 2003. Thereafter, automatic changes in the base, tied to increases in average wages, would be resumed. (Under current law, the taxable maximum is projected to increase to \$82,800 in 2003, with automatic changes also continuing thereafter.)

## II. INDEXATION PROVISIONS

The payroll tax cut in the legislation is offset by two indexation provisions and other changes that most observers agree are needed.

### A. Correct cost of living adjustments by one percentage point

The bill includes a one percentage point correction in cost of living adjustments. The correction would apply to all indexed programs (outlays and revenues) except Supplemental Security Income. The Bureau of Labor Statistics has made some improvements in the Consumer Price Index, but most of these were already taken into account when the Boskin Commission appointed by the Senate Finance Committee reported in 1996 that the overstatement of the cost of living by the CPI was 1.1 percentage points. Members of the Commission believe that the overstatement will average about one percentage point for the next several years. The proposed legislation would also establish a Cost of Living Board to determine on an annual basis if further refinements are necessary.

### B. Increase in retirement age

In 1983, the retirement age was increased, over time, to age 67 for those turning 62 in the year 2022. The proposed legislation modifies present law, so that the retirement age increases by two months per year between

2000 and 2017, and by one month every two years between years 2018 and 2065. This increase is a form of indexation which results in retirement ages of 68 in 2017 (for workers reaching age 62 in that year), and 70 in 2065 (for workers reaching age 62 in that year.)

The increase in the retirement age is a form of indexation because it is related to the increase in life expectancy. Persons retiring in 1960 at age 65 had a life expectancy, at age 65, of 15 years and spent about 25 percent of their adult life in retirement. Persons retiring in 2073, at age 70, are projected to have a life expectancy at age 70 of about 17 years, and would also spend about 25 percent of their adult life in retirement. These are persons not yet born today who can expect, on average, to live almost to age 90.

## III. PROGRAM SIMPLIFICATION—REPEAL OF EARNINGS TEST

The so-called earnings test would be eliminated for all beneficiaries age 62 and over, beginning in 2003. (Under current law, the test increases to \$30,000 in 2002.) The earnings test is an administrative burden with about 1 million beneficiaries submitting forms to the Social Security Administration so that benefits can be withheld (reduced) if the beneficiary has wages in excess of the earnings test. Social Security Administration actuaries estimate that the long-run cost of repealing the earnings test is zero because beneficiaries eventually receive all of the benefits that were withheld due to the earnings test.

## IV. OTHER CHANGES

All three factions of the 1997 Social Security Advisory Council supported some variation of the following three provisions:

### A. Normal taxation of benefits

Social Security benefits would be taxed to the same extent private pensions are taxed. That is, Social Security benefits would be taxed to the extent that the worker's benefits exceed his or her contributions to the system (currently about 95 percent of benefits would be taxed).

## CBO BUDGET ESTIMATES

[Fiscal years 1999–2008, in billions of dollars]

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Cumulative surplus	
											5 years 1999–2003	10 years 1999–2008
Estimated Surplus Under Current Policies .....	9	1	13	67	53	70	75	115	130	138	143	671
Estimated Surplus Under The Social Security Solvency Act of 1998 .....	5	12	6	65	55	79	94	148	176	201	143	841

## PAY-AS-YOU-GO PAYROLL TAX RATES REQUIRED TO FUND SOCIAL SECURITY

Year	Assuming no program changes	Social Security Solvency Act of 1998
2001	10.40	10.40
2005	11.40	10.40
2010	12.40	10.40
2015	13.90	10.40
2020	15.40	10.40
2025	16.40	11.40
2030	16.40	12.40
2035	16.90	12.40
2040	16.90	12.40
2045	16.90	12.70
2050	16.90	12.70
2055	17.40	13.00
2060	17.80	13.40
2065	17.80	13.40
2070	18.00	13.40

Note.—The Social Security payroll tax rate is fixed by statute at 12.4 percent. Assuming no program changes the current law program is not sustainable. In 2012, outgo for the OASDI program will exceed tax revenues. In 2029, all OASDI assets (reserves) will be expended, after which tax revenues will only be sufficient to pay 75 percent of expected benefits.

Mr. NICKLES addressed the Chair.

The PRESIDING OFFICER. The Senator from Oklahoma.

Mr. NICKLES. Mr. President, I wish to compliment my colleagues, Senator MOYNIHAN and Senator BREAUX and Senator KERREY, for the introduction

of this legislation. I am not joining as a cosponsor now, but I certainly want to sponsor and echo the comments that they made that we need to reform Social Security and we need to move Social Security away from a pay-go system into a funded system, a capitalized system, a system that has an investment behind it, one that people get to own and control and can invest in.

They have taken a small step in that direction. As I understand it, the proposal would allow 2 percent of the 12.4 percent to go in that direction, either to be returned in the form of a tax cut or to be put into a personalized savings Social Security account.

I echo very strongly that right now we should depart from an unfunded system, a pay-go system, a system that is destined for bankruptcy unless we change it, unless we save it—and a lot of us are very committed to saving Social Security. We think the real way to save Social Security is to move it into a funded system. Private plans have been doing that all across the country.

### B. Coverage of newly hired State and local employees

Effective in 2001, Social Security coverage would be extended to newly hired employees in currently excluded State and local positions. Inclusion of State and local workers is sound public policy because most of the five million State and local employees (about a quarter of all State and local employees) not covered by Social Security in their government employment do receive Social Security benefits as a result of working at other jobs—part-time or otherwise—that are covered by Social Security. Relative to their contributions these workers receive generous benefits.

### C. Increase in length of computation period

The legislation would increase the length of the computation period from 35 to 38 years. Consistent with the increase in life expectancy and the increase in the retirement age we would expect workers to have more years with earnings. Computation of their benefits should be based on these additional years of earnings.

## SUMMARY OF BUDGET EFFECTS

The legislation provides for long-run solvency of Social Security, financed with payroll taxes that are not much higher than current rates. It is also fully paid for in the short-run. The Congressional Budget Office's preliminary estimate indicates that for the ten-year period FY 1999–2008, the proposal increases the projected cumulative budget surplus by \$170 billion, from \$671 billion to \$841 billion. For the five-year period FY 1999–2003, CBO projects that under the plan, the cumulative surplus is unchanged. In no year is there a deficit. All of this is accomplished while reducing payroll taxes by almost \$800 billion. A table showing CBO's estimate of the surplus under current policies and under the Social Security Solvency Act of 1998 is attached.

They are allowing individuals, participants in their plans, to reap the benefits and rewards of good investments.

I heard my colleague—I think Senator BREAUX mentioned that if a Federal employee had invested 100 percent in the stock option plan last year, the rate of return was 40 percent.

Mr. MOYNIHAN. I wasn't.

Mr. NICKLES. I was. I put 100 percent of my thrift plan in, and it made a 40 percent return. For the S&P index for those months, which included September 30, it was a 34 percent rate of return, a phenomenal rate of return. It was a lot less for Government bonds. There are three different options for Federal employees. They all made significant returns far greater than the 1 or 2 percent that a person can make in Social Security today.

So we can allow those accounts to accumulate and grow and allow people to become entrepreneurs and to achieve some real savings and also lessen their dependence on Social Security at the same time.



Senator MOYNIHAN also had the nerve to say—I think he said, that we should have, an accurate CPI. Again, a lot of people do not want to touch that. But we should have an accurate CPI. If we have a balanced budget or if we have a surplus or a deficit, we should have an accurate CPI. And, yes, there are significant savings in that proposal as well.

He talked about some other things, talking about increasing the retirement dates. That is not real popular maybe with a lot of people, but, frankly, you have to look at the actuarial analysis of Social Security. Social Security has big, big problems. Although I have some reservations, I think my colleague from New York has taken some giant steps in the right direction.

I understand there is a little tax increase on the personal income tax side. I would like to see if we can do it without that. Transitionally we may have some challenges. I would very much like to get the percentage up from 2 percent. Actually, right now an individual pays 12.4 percent of their payroll for Social Security up to \$68,000, \$68,400, I believe. I would like to be able to get half of that into an individual's personal savings account where they can really see some rewards. That is over \$9,000 that an individual, if they make \$68,000, is paying in Social Security today. It would be nice if they could put half or at least a significant portion of that into their own retirement account where they can watch it grow, where they can invest it. They could be very cautious in their investments and invest it in T bills if they so desired or invest it in stocks or they can invest it in bonds. They would have those options.

I would like to give them the maximum amount of options that we give people for 401(k)s, that we give people for IRAs, that we give Senate employees through thrift plans and so on. I would like to give all American taxpayers that option so we can have a lot of millionaires, a lot of people driving a truck in Nebraska or Oklahoma becoming millionaires by the time they retire so they will not become dependent, frankly, on an unfunded pay-go system like we have right now into which their children will be paying enormous sums in the future.

I think you hear a lot of people trying to sell programs by using kids. I think we need to be very, very concerned about future liabilities in Social Security for our kids. How in the world will they be able to make those payments if we do not reform the system? Senator MOYNIHAN had a chart out there that said the payroll tax would have to go up astronomically. I do not think that is fair for our kids.

Maybe we can alleviate that pressure if we allow individuals now, before they hit their retirement age, to be able to set up these personal savings accounts and be able to reap decent rates of return and become less dependent on their children and grandchildren for their future retirement benefits.

Conceptually, I commend my colleagues on their work, and I think you will find strong bipartisanship support for working together to see if we cannot make this concept of making funded capitalized personal savings accounts a part of every individual's Social Security for the future. We will work to try to make that a reality in America.

Thank you, Mr. President.

Mr. MOYNIHAN. Mr. President, may I take a moment to thank the distinguished deputy majority leader. I couldn't be more grateful. If there are auspices, his comments make them very good indeed.

I yield the floor.

Mr. ROTH. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. ROTH. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. BURNS). Without objection, it is so ordered.

#### EDUCATION SAVINGS ACT FOR PUBLIC AND PRIVATE SCHOOLS

The PRESIDING OFFICER. Under the previous order, the Senate will now proceed to the consideration of H.R. 2646, which the clerk will report.

The assistant legislative clerk read as follows:

A bill (H.R. 2646) to amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, and for other purposes.

The Senate proceeded to consider the bill.

Mr. ROTH addressed the Chair.

The PRESIDING OFFICER. The Senator from Delaware is recognized.

#### AMENDMENT NO. 2019

(Purpose: To amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, and for other purposes)

Mr. ROTH. Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

The Senator from Delaware [Mr. ROTH] proposes an amendment numbered 2019.

Mr. ROTH. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

(The text of the amendment is printed in today's RECORD under "Amendments Submitted.")

Mr. ROTH. Mr. President, I ask unanimous consent that the amendment be agreed to, the motion to reconsider be laid upon the table, and it be consid-

ered original text for the purpose of further amendment.

The PRESIDING OFFICER. Is there objection?

Without objection, it is so ordered.

The amendment (No. 2019) was agreed to.

Mr. LOTT. Mr. President, I congratulate the chairman of the Finance Committee, as well as Senator COVERDELL, for crafting such a bipartisan amendment. As always, while it may not always have the vote of the ranking member, he is always cooperative and considerate in how he deals with legislation coming out of the Finance Committee. So I really appreciate the work done by Senator ROTH, Senator MOYNIHAN, Senator COVERDELL, and Senator TORRICELLI, in getting this bipartisan initiative to this point.

The amendment includes three major Democratic initiatives that are also supported by a majority on this side of the aisle—those being the school construction section that has been aggressively pursued by Senator GRAHAM of Florida, Senator FEINSTEIN of California, and others. A lot of work went into that by Senator COVERDELL and Senator ROTH, once again. It also includes the State prepaid tuition initiative in which I believe Senator BREAU, Senator GRAHAM, and others have been interested. I also have been supportive of that initiative in the past. I believe Senator MOYNIHAN also has had an interest in that. Finally, it also includes the employer-paid higher education provision. This is something I believe is referred to as section 127, which Senator MOYNIHAN talked about.

I think that anything we can do to make it possible for parents, grandparents, and supporters of scholarships in education to be able to be more involved and to save for their children's education, not only higher education, but K through 12, elementary and secondary, to be able to take advantage of a prepaid tuition initiative so that that can be done to help children get into college and deal with what quite often is a pretty high tuition cost when they first go in, or deal with the costs of their graduate education and those expenses should be done. These are all good things because we need to do everything we can in America to make it possible for our children to get an education, whether that's elementary and secondary, higher education, or trade school training, vocational education, whatever it is. So we need to look at all of those across the board.

I continue to be concerned about the poor test scores of our children at the elementary and secondary levels. I continue to look at the fact that our higher education is the best in the world and wonder why that is true when our elementary and secondary education levels are quite often very low. In fact, I saw one statistic recently that we are 19th in the world. Why? Why can't our children write in the fourth grade and read and understand basic science when they are in the eighth grade? I think